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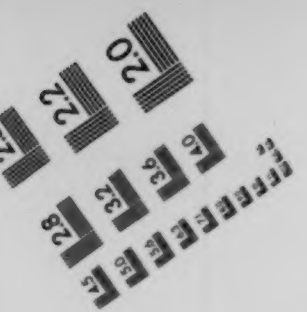
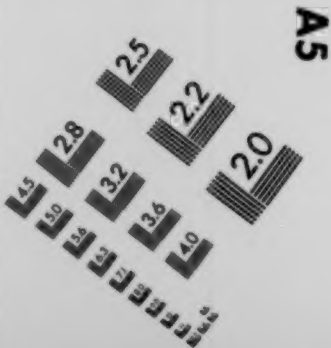
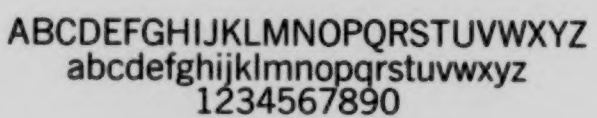
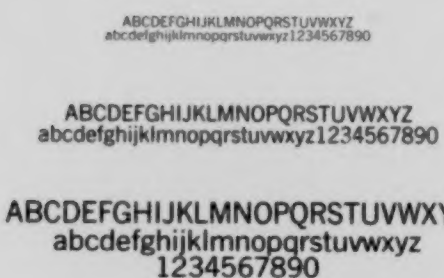
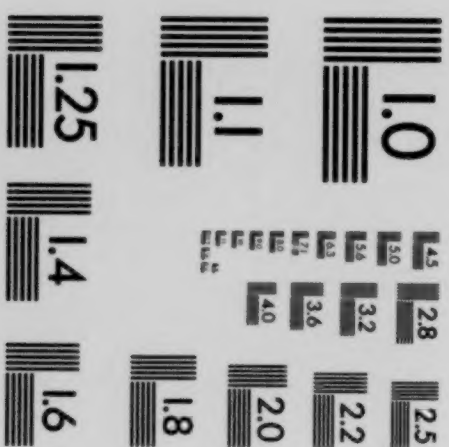
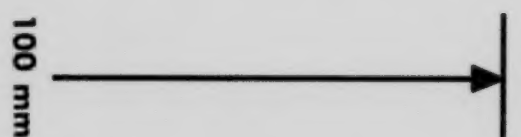
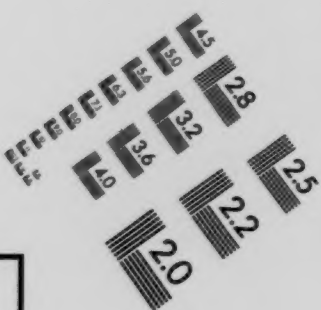
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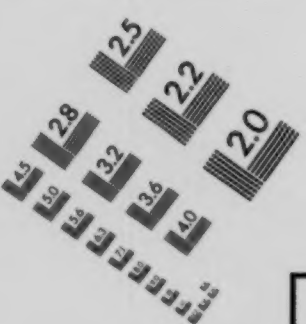
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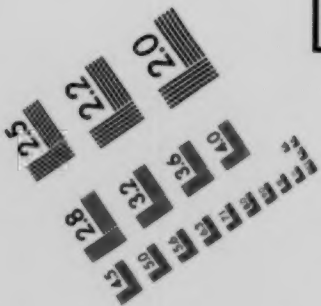
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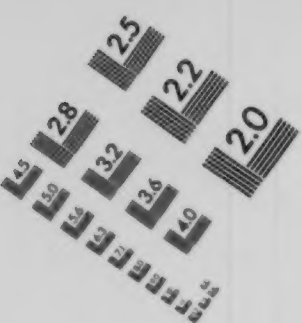
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THE ADMINISTRATION AND MANAGEMENT OF BUSINESS
COMBINATIONS

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PREFACE.

As appears in its title this Report is merely an introduction to a very much larger subject on which further research is urgently required. It is issued by the International Management Institute in the hope that it may stimulate interest in a question which is of vital importance to better business management and hence to the well-being of the community.

The preliminary studies of a number of business combinations in Europe and the United States and the draft on which the report is based were undertaken by Miss M. Locke (Mrs. Wheatcroft) with the assistance of a Laura Spelman - Rockefeller travelling fellowship. Work was also contributed to the report by Mr. N. Balfour Scott (now of Wallace Clark & Company) and by Mr. H. M. Spitzer (formerly of the staff of the Institute).

The Board of the Institute take this opportunity of thanking all those who have assisted in the work of compilation.

THE ADMINISTRATION AND MANAGEMENT OF BUSINESS COMBINATIONS.

INTRODUCTORY REPORT

I. DESCRIPTION OF THE ENQUIRY.

A. DEVELOPMENT OF BUSINESS ENTERPRISES FROM SIMPLE TO COMPLEX FORMS.

One of the chief characteristics of modern business development is the change in the structure of the typical enterprises from the unit factory, under the control of a single company, to the combination where a number of operating units are all under some form of control or regulation. This development comes about in two ways: in some cases through the expansion of the operations of a single company into new territories or new types of enterprise, in others through the consolidation or association of existing single or complex enterprises into new trading groups.

This development, which is sometimes known as the "combination movement", is from one standpoint a logical consequence of the exercise of economic initiative by powerful personalities. In this form it has been known throughout modern history, and particularly in the commercial and financial fields (cf. the Hansa, the Fugger, the Rothschild). But, in recent years, it has become of increasing importance for a variety of reasons. The rapid spread of the principle of limited liability in the last quarter of the XIX Century offered an opportunity, which had previously been lacking, for the effective financing and control of such larger business aggregations. At first such tendencies were viewed with great public distrust as facilitating the creation of monopolies and the exercise of irresponsible authority by business magnates without protection for the public interest. More recently, and particularly in the last decade, the technical advantages of large-scale business operation and the logical necessity of such forms of organization if the full potentialities of the machine technology are to be realized, have enforced an accelerating increase in the size of combinations and in the variety of business enterprises brought within their scope.

At the same time, there has been a growing public recognition of the wastes inherent in un-regulated individual competition and of the fact that, whatever their immediate incidence, such wastes have ultimately to be borne by the consumer. On the other hand, it has become increasingly manifest that large-scale production necessarily demands mass distribution, a wide and certain market which can only be secured by progressive improvements in efficiency which are passed to the consumer in lower prices and to the producer in enhanced earnings. The very size of modern business combinations also ensures a degree of publicity as to their operations which is in itself a safeguard against exploitation. Thus, both technical and economic considerations have combined to hurry forward the tendency towards combination, while, at the same time, public resistance to the conception has appreciably diminished.

Hitherto this movement has usually been studied from one of two main points of view. The first is the juridical aspect, which considers the legal structure of the combination, its external relationships with the State, other enterprises and the community, as far as they are, or can be, regulated by legislation. The second is the social-economic point of view which considers the effects of combination on the economic structure of the community and its influence on supply, prices, population, occupation and on general social development. But there is a third standpoint from which combinations can be studied which may well prove in the long run, to be of greater importance than either of those already mentioned. This standpoint is concerned with their efficiency as a system of

administration. How far do they, in fact, realize the potential economies underlying the decision to form them? To what degree are such economies, where they are realized, likely to prove temporary? That is to say, what is the possibility that special administrative difficulties may arise in the course of the evolution of these large-scale undertakings which will offset any economic advantages achieved as the result of first enthusiasm or of the "leadership" of some outstanding personality? To what extent, as a method of business operation, do they hold out promise of continuity, and what are the forms and methods of administration calculated to secure their progressive efficiency? The risk implied in these questions has already been suggested by certain economists. §1. The special standpoint outlined has also been emphasized. §2.

Obviously this general question of the efficiency of business combinations can be approached from one of two angles. In the one case an attempt may be made to measure the actual results of combinations as expressed in terms of profit and to compare those results with similar figures for the individual undertakings, prior to combination. An interesting preliminary study on these lines has been carried out in the U.S.A. §3. Alternatively it is possible to examine the forms and methods of administration actually adopted by business combinations and particularly the problems in this field which differ from those found in the case of the unit business. It is perhaps significant that a scientific management expert who examines the organization chart of a unit business is usually able to criticize and discuss the arrangements revealed by the chart in the light of his general knowledge of organization principles. In the case of the combination, however, he has no such general background of accepted knowledge, no typical structure of responsibility or arrangement of functions on which to base discussion. In view of the increasing economic importance of the combination, the absence of any established organization principles to guide and assist those engaged in their administration indicates a real need, which may well become increasingly urgent. §4.

It is this need to which this enquiry is addressed. It is concerned solely with the forms and methods of administration and management actually employed by business combinations and particularly with the problems in this field which differ from those found in the case of the unit business.

Hence the legal aspect is only of concern insofar as it is necessary to discover how far on the one hand the form, which combination has taken in different countries, has been affected by national legislation, and, on the other, what legal

§1. cf. "The Economics of Private Enterprises" - J.H. Jones, 1926, Pitman & Sons, Ltd. p.123. "After a certain stage has been reached in the growth of the unit the economies either remain constant or, in many cases, grow less. The final limit is set by the difficulty experienced in securing ability of a sufficiently high order to direct the policy and organization of the unit. The latter becomes too unwieldy for effective control". See also "Onward Industry" - James D. Mooney and Alan C. Reiley - Harper & Bros., London and New York, 1931, p.504. "Some authors, borrowing the thought from the economists, raise the question whether there may not be such a thing as 'typical magnitude' in an organization, beyond which the law of diminishing returns begins to operate because of its size and complexity. This idea is opposed by the thesis of this book that there are real principles of organization that impose no such limits".

§2. cf. "Rationalization of Industry" - D.H. Macgregor - Economic Journal, December 1927, p.324. "Rationalization has been built up so as to imply the right organization of an industry considered as a type of government", also Mooney & Reiley passim.

§3. "Mergers in Industry" - National Industrial Conference Board, New York, 1929.

§4. cf. "The Dynamics of Industrial Combination" - H.A. Marquand, Longmans, 1931, p.25.

"The growth of combination in large-scale units calls for a treatment somewhat different from that which it has usually received in the past. The danger of monopoly has been shown to be less menacing than was feared. Into the price policy of the trusts sufficient enquiry has already been made. What is more important is to study the efficiency of these new business organizations, to examine the nature of their structure, and to determine how far they satisfy the demands of technological and administrative economy. Is their framework a "rationalized" one, and will their administrators be able to keep them efficient and active without the old competitive stimulus?"

regulations there are which control the actual way in which the combination is managed and administered.

Similarly, the social economic point of view is only of importance insofar as public opinion as to the social or economic effects of combinations has influenced either their structure or their method of operation.

In any attempt at a descriptive analysis of a combination from the standpoint of its administration and management, the following questions emerge:-

1. What are the constituent units of which it is made up; what services or production processes do they perform, and what is the relationship between such processes?
2. What were the motives which led these enterprises to form a combination and how far did these motives affect its structure?
3. What means were adopted by the combination to realize the purposes for which it was formed; in other words, what changes in the structure of methods of operation of the combined enterprises were brought about as a result of combination?

B. BASIS OF THE ENQUIRY.

This third set of questions leads directly to the analysis which forms the basis of this enquiry. That is, a study of the special problems of management which are inherent in the complex as opposed to the simple form of business organization. What changes in the administration and management of a company are brought about when it comes under the control of a combination? What new forms of organization are adopted? Under similar sets of circumstances, which functions are centralized and which are left under the control of the subsidiary units? How far must the administration of the combination be unified to secure coordination of policies, and to what degree should authority and responsibility be delegated to obtain the maximum effect from local initiative?

II. METHOD OF INVESTIGATION.

Just as the unit factory presents many similar problems of administration and management, whether it be in the United States or France, or whether it be engaged in the manufacture of steel or chocolate, so the combination presents similar problems, whether it be an American Trust manufacturing Harvester Machines or a German Coal Cartel. For this reason, this enquiry is not confined to one country, to one industry, or to one type of combination, but takes as its theoretical basis any instances where combination has taken place between business enterprises. It is intended to concentrate especially on those problems of administration and management which are common to almost any combination. It is important to realize that the legal structure of a combination may not in the least represent its actual operating structure, just as a written constitution may give little indication as to the real balance of power and responsibility in a government. Hence, it is found that even the most apparently opposite types of combination, the association and the consolidation present some very similar problems of operation and management.

The enquiry will follow the empirical method. Only by the practical analysis of a number of existing combinations can data be obtained from which it is possible to derive the principles underlying the scientific management of the complex organization. There are two chief lines along which investigation can be directed. One is the analysis of particular corporations in all the phases of their activity, and a study of the way in which each problem of combination management has been met as it emerged. The other is by the isolation of special functional problems, as for example, the distribution problem, the accountancy problem, or the problem of administration, which are then studied throughout a number of separate corporations. This enquiry will pursue both methods, first considering each of a series of combinations

as a whole, and then proceeding to a detailed study of those problems which appear to be of special importance.

It is planned to publish the results of these studies from time to time while the investigation is proceeding. The series of reports at present contemplated are:-

1. A preliminary report to describe the enquiry, give a general classification of the various types of combination which exist, and indicate the chief problems which are involved in their administration and management.
2. A report on the effect of national legislation on the administration of combinations, and on their operating methods.
3. A series of reports descriptive of the structure, historical development, and methods of management of certain special combinations selected as representative of different countries, industries and types.
4. A series of studies of some of the most important functional problems involved in the administration and management of combinations.

III. TERMS USED IN THE ENQUIRY.

There are two main sets of terms which must be defined at the outset of this report. First, those terms which have grown up with the science of the management of the unit factory, and secondly, those which have been used to describe the forms of the combination movement in different countries.

The terminology contains certain elements of confusion, since many of the terms have at the same time a popular content used in general parlance, and a technical content given to them by writers on business management.

A. THE UNIT ENTERPRISE.

By a business enterprise is meant "an undertaking for the purpose of producing or distributing goods and services for a return at least sufficient to meet the costs involved".

In considering the way in which a business enterprise is operated, there are three concepts which should be distinguished, those of administration, management, and organization.

1. Administration and Management.

Writers on the subject are positive as to the necessity of distinguishing between these two terms, and the activities which they represent. "A clear understanding of Scientific Management requires that management be not confused with administration". §1. Administration "is concerned in the determination of corporate policy, the coordination of finance, production and distribution, the settlement of the compass of the organization, and the ultimate control of the executive". Management "is concerned in the execution of policy, within the limits set up by Administration, and the employment of the organization for the particular objects set before it". §2. From the practical point of view, in many enterprises, the distinction may be drawn in

§1. Article on "Scientific Management" by H.S. Person in "Scientific Management since Taylor" - edited by E.E. Hunt, McGraw-Hill Book Company, New York, 1924, p.5.
 §2. O. Sheldon - "The Philosophy of Management" - 1923, p.286. cf. also in "Factory Organization", 1928, p.21. "The duties which fall within the sphere of Administration differ, in degree and in kind, from those which constitute the scope of what we have called Management. Whereas the one is determinative, the other is executive; and, where the one directs, the other is under direction".

terms of persons between administration, which is carried out by a Committee or Board meeting periodically to determine the policies, appoint officers, lay down the general outlines of the concern and examine results, and management, which is carried out by officials responsible for the day by day conduct of the business.

It is, however, the nature of the activity which is of importance as a basis of definition, rather than the persons who act. It is clear that decisions of an administrative character frequently form part of the work of those engaged in management. The line of demarcation falls between determining policies and executing them. In some cases, the distinction between administrative acts which are called for as part of the work of managing a particular portion of an enterprise and those which must be the concern of its controlling authority is drawn by giving to the latter the title of "general administration". In practice, the important point is that the nature of such acts should be recognizable and provision made for decisions by the appropriate persons. "In any business which grows past the point where one man can personally make all decisions, it is necessary, first, to cease deciding every issue as a separate special case and to establish normal policies and procedures, and second, to separate the problems of general concern from those pertaining to only one function of the business".^{¶1.}

In the case of the large-scale combination tasks of an administrative character are inevitably extremely numerous and complex. Certain aspects of administration may be delegated to local officials or to the controlling authorities of the constituent units of the combination. General administration is itself frequently subdivided and specialized, committees or other machinery being set up to deal with certain aspects of corporate policy. In such cases, the ultimate controlling authority may retain only such features of general administration as are concerned with the higher coordination of the whole undertaking. Possibly such coordination may be secured through financial mechanisms only. In any event, the relationships set up are both detailed and various. The proper assignment of duties, authority and responsibility becomes in itself an activity of major importance.

2. Organization is the process of assigning duties, authority, and responsibility. It may thus be defined as "determining the scope and limit of activity of each individual, or group of individuals, in business or industrial undertakings, together with their relations and connections with one another." ^{¶2.}

Thus, while administration and management are two parts of the total process of operating an enterprise, organization is a separate activity forming part both of administration and management, but in turn determining the general lines on which these activities are conducted.

¶1. Robert W. Burgess in "Scientific Management in American Industry" - Taylor Society 1929, cf. p.43 (Harper & Bros.). cf. also Mooney & Reiley. "What is here meant by the administrative function is the authority that decides on general policies, and which, in the industrial structure, is usually exercised by the board of directors or its committees. This is the highest planning function corresponding to the legislative function in government and may with accuracy be so described". (p.488).

¶2. Hugo Diemer: "Industrial Organization and Management" 1923, p.1. cf. also O. Sheldon "Philosophy of Management", 1923, p.286. "Organisation, which is the process of so combining the work which individuals or groups have to perform with the faculties necessary for its execution that the duties, so formed, provide the best channels for the efficient, systematic, positive and coordinated application of effort"; and p.32, *ibid.* "Organizing is the machine of management in its achievement of the ends determined by administration". cf. also Mooney & Reiley: "Organisation is the form of every human association for the attainment of a common purpose" (p.10). "The relation of management to organization is analogous to the relation of the psychic complex to the physical body" (p.1). "The technique of management in its human relationships can best be described as the technique of managing or handling people, which should be based on a deep and enlightening human understanding. The technique of organization may be described as that of relating specific duties or functions to a completely coordinated scheme". (p.14).

Confusion is also caused by the fact that these terms are used in popular parlance not only to describe processes, but also to describe in their collective capacity the persons engaged in these processes, and in some instances, their results. Thus, a Board or Committee engaged in administering an undertaking, is frequently known as "The Administration". Managers engaged in the conduct of the business are often referred to collectively as "The Management". The methods and systems adopted by a business undertaking are sometimes described as "The Organization", while persons working together under systematic arrangements, either implicit or expressed, are referred to as "An Organization".

It should also be pointed out that, in common parlance, and also in some technical writings on the subject, each of these terms has been used as descriptive not only of that activity which has been assigned to them in these definitions, but also of the total process of operating an enterprise, of which each of these activities forms a part. To take some examples, Sheldon, in the "Philosophy of Management", after defining Administration, Management proper, and Organization, says (p.33): "This book concerns all three. The title is selected because it is the popular mode of describing the combination of the three. The term 'Management' is so commonly used to cover the formulation of policy, its execution, the designing of the organization and its employment, that it would be somewhat too academic to insist in a title upon distinctions which popular thought fails to recognize. Management, in this general sense, including both Administration and Organization, is the natural outcome of human associations, whether in industry, household or State...."

Pitman's "Dictionary of Industrial Administration" ^{¶1} says: "The term 'Administration' is commonly used to describe in the most general way the whole of the activities involved in the control and direction of a business or similar enterprise. The conduct of a modern business, however, requires the exercise of many various types of work, corresponding to many various kinds of skill, and representing various techniques. Although, therefore, it may be desirable to use some single inclusive term for the whole range of these activities, it will be clear that there must also be various special terms to designate the particular branches and groupings comprising that whole. The term administration is gradually assuming such a special significance, and it is in its special sense that it is used here". "Organization" on the other hand, has also been used in a wider sense by some writers, as, for instance, Marshall, in the "Principles of Economics" ^{¶2}, who calls organization the fourth agent of production, in addition to land, labour and capital, regarding it as the total activity of bringing the three other agents together in their productive uses. He thus makes it include both the bearing of risks and also business management or the actual operation of the unit enterprise.

It is important to draw distinctions between these three conceptions, and to make clear in what sense the terms are being used, since they have a practical bearing from the point of view of this report. The coordination of policy within a combination, which may be done either through the interlocking of the Boards of the combined companies, by the setting up of a uniform administrative body or in various other ways, presents an entirely different type of problem from those connected with the management of the combination. The latter are concerned chiefly with the centralization of certain management activities, and are more specifically technical as opposed to problems of the political and psychological type.

3. Functions.

The process which has been defined as organization, involves the allocation of responsibility on two distinct principles. On the one hand according to the degree of authority involved, and, on the other, according to the subject of the responsibility. This distinction is usually represented on an organization chart

¶1 Pitman's Dictionary of Industrial Administration, 1928, edited by J. Lee. See 'Administration'.

¶2 Alfred Marshall - Principles of Economics, 1890, Vol.I. Book IV.

responsibility. This distinction is usually represented on an organization chart by division on vertical and on horizontal lines.

The horizontal division of authority arises through the splitting up of the total process of operating an enterprise into certain distinctive activities which are usually known in management terminology under the name of 'functions'. To quote the definition given in Pitman's Dictionary of Industrial Administration §1: "A Function has already been described as a technique common to several branches of industrial activity. As a unit in an organization a 'function' may further be defined as a combination of all activities in an enterprise, of one kind, requiring one set of human qualifications, and technical attainments, under one technical control. Such functions, clearly, will be the same for all industrial enterprises of one kind, only differing in degrees of relative importance as between enterprises of different kinds. Each function, moreover, must also be clearly distinguished from other functions, and, insofar as its technique is concerned, must be a complete whole, independent of other functions".

The conduct of a business enterprise thus involves the performance of a series of functions which are a necessary part of this total process, though enterprises differ in the importance laid on particular activities and in the way in which they are grouped for purposes of control. The process is briefly, first to raise the capital with which to start the business; next to find the requisite equipment of site, buildings, materials, and labour; and finally to utilise these materials in the production of a manufactured article or the performance of some service, and to put this article or service into the hands of the consumer.

This cycle of operations, with its variations in different types of industrial enterprises, includes a large number of separate activities; but for purposes of control, these are usually grouped round three or four main functions. The details of this grouping differ in every enterprise, in accordance, both with the theory of organization adopted, and also with the specialized demands of the business in question; and hence for the purposes of classification in this report it is only possible to adopt what seems to be a fairly general arrangement. It is not necessarily either the best, or the most frequent. The chief functions of a business may then be said to be four: General Administration, Finance, Production and Distribution.

The function of general administration covers "the determination of the general policies of the business, the adaptation of general plans to changing conditions, the coordinating control of the various major functions of the business and the appraisal of results secured by departments." §2 Some writers call this function General Management, but, strictly speaking, it is neither management only nor administration only, but a separate function which needs both these processes for its operation. Further, it is an activity distinct from the other functional activities of the business, though it includes the framing of policies in connection with and the general control of, these other activities.

§1. Pitman's Dictionary of Industrial Administration, 1928, edited by J. Lee.

§2. Robert W. Burgess in "Scientific Management in American Industry" - The Taylor Society, 1929, p. 43. cf. also Henri Fayol "Industrial and General Administration" translated from the French and published by the International Management Institute 1930, p. 9. "None of the five preceding functions is called upon to draw up the general plan of operations, organize the staff, and coordinate all the various activities of the business. These duties are not within the province of the technical function, nor of the other four functions: they constitute a separate one, which is usually described by the word administration, and whose powers and limits are rather badly defined".

Certain minor functions are frequently grouped with this primary function of general administration, since they are in reality ancillary to the main activities. In relation to the part of this function which deals with the framing of policies, may be the legal and patent departments, economic and statistical research, public relations and publicity. In relation to the part of the function concerned with the coordination and control of the whole operations of the business, may be the functions of budgeting, of control of prices, of determining methods and standards, and of staffing, by which is meant the personal activities concerned with executive and technical grades.

The financial function has two main aspects. One concerns relations outside the company, such as the raising of capital, and of loans, the payment of dividends, investments, insurance, etc. The other is the process of recording and accounting for all the proceedings of the company in monetary terms in the accounting, costing and auditing functions.

Next comes the function of production, that is, "the actual extraction or processing of raw materials, or the provision of a service". § This function, in our classification, may be taken to include the subsidiary functions of purchasing of materials and supplies, relations with labour, maintenance of plant and equipment, and the purely technical functions of research, design, engineering and manufacture.

The distribution function, provides for "the disposal of the goods or services provided by the business to those who require them." § This includes the functions of marketing, advertising, selling, and transport.

1. Functional and Departmental Organization.

In considering the way in which responsibility for these various activities is allocated among the personnel of an enterprise, two main forms of organization may be distinguished. These are known as the "departmental" and "functional" forms.

Under the departmental form, the work is usually divided up into sections each of which is distinguished from the others by some boundary of material character arising from the nature of the work. Responsibility may be determined by a geographical frontier, by the technical limits of an assigned process or processes, or by product or groups of products. The department head is put in complete charge of his department not only in regard to its main purpose, but also in relation to all subsidiary activities connected with that purpose, such as purchasing of materials and supplies, control of workers, keeping of records, distribution of the finished product, and so on. This system facilitates the delegation of and fixing of responsibility for a definite section of the total activities of the company and hence encourages initiative.

The functional form of organization, which is generally regarded by management theorists as the more efficient, aims at apportioning responsibility according to the immaterial boundaries presented by the character of the work performed and the special knowledge or skill for which it calls. Thus if a departmental organization is to be turned into a functional one, certain subsidiary activities which were previously left to the department head, are turned over to specialist departments, and functionalised. For example, a personnel department is set up, responsible for labour questions throughout all departments, and a special purchasing department takes over the buying of all materials and supplies. This system prevents duplica-

§ L. Urwick - Meaning of Rationalization - 1929, p. 104. (Nisbet & Co.)

tion of activities in several departments and facilitates the concentration of specialists on problems which are daily demanding a higher degree of technical skill. Few organizations are entirely either departmentalized or functionalized, for though most show a tendency to prefer one or other form, in the former they are nearly always some purely functional departments, and in the latter the extreme degree of functionalization is rarely reached.

The organization of the combination brings out certain problems which may modify these theories of organization derived from study of the unit concern. As more knowledge becomes available on the subject, it will be interesting to know how far the necessity of decentralization in the large concern breaks down the system of functional organization; or how far on the other hand, it is found possible to decentralize through functional departments rather than through local general managership. Further, there is the possibility that a departmentalized organization with functional committees may come to take the place of the purely functional organization in the large concern.

Under the departmental form, there are three types of organization which may develop in the combination. Either authority may be delegated along territorial lines, or on lines of processes or on lines of commodities. A utility corporation operating gas, electric and transport services in different parts of a country either be decentralized territorially, the local general manager having charge all three types of operations in his area; or on lines of commodity, a central department being responsible for all gas distributing units throughout the country and a central electric department for electric units, and so on. Similarly a combination of coal mines, blast furnaces and rolling mills may be divided up as regards responsibility either territorially, a manager being appointed for each district in which works are selected, or by process, a manager being appointed for all mines, all plant furnaces, and so on.

5. Staff and Line Authority.

While the horizontal division of an organization determines the method by which the various kinds of activities to be carried out by the personnel are distributed, the vertical division on the other hand determines the degree of authority and responsibility given to each member of the executive force. This, in a well organized concern, leads to the grading of jobs down the line from Director, General Manager and Department head, to foreman, sub-foreman and worker, each grade having certain duties and certain fixed powers of supervision over the next.

Besides the differing grades there are also differing forms of authority. The chief of these are two: line and staff authority. The distinction between line and staff has sometimes been regarded as a distinction of function, but the difference between them is not really a difference in the kind of work performed, but in the nature of the authority of the individual who is carrying out the work. Thus the distinction between an economic research department and a purchasing department is not that one is a staff and the other a line department, but that the head of the one acts more often in a staff capacity than in a line capacity, and the head of the other more often as a line than as a staff executive.

Line authority is the right to give orders directly to subordinates and to see that they are carried out; it also usually involves direct responsibility for the actions of those subordinates. Staff authority, on the other hand, is largely advisory in its character. It does not include the right to give orders directly on the personal authority of the individual concerned; though on the other hand it may include the right to give orders as the representative and on the responsibility of some superior line executive. It does not involve any responsibility that action is taken on its recommendations. The main duty of an executive acting in a staff capacity is to collect information bearing on some subject which he is either

investigating on his own initiative, or which has been turned over to him by a line executive, examine it, and on the basis of his conclusions make recommendations for action. These recommendations are submitted either to a committee with executive authority, or to a line executive, and this committee or individual decides on the resulting line of action, and takes the responsibility for it. Staff executives usually have some degree of line authority, and vice versa. For example, the director of an economic research department has the staff activity of advising other executives as to certain economic problems which arise in the framing of policies. In addition to this he has, however, the line activity of determining and directing the work of the economic research department".

In the combination there is a tendency for the centralization of staff, and the decentralization of line, authority. The object of this is, on the one hand to make use of the research opportunities afforded by the size and resources of the concern, and on the other to prevent delay in the framing of decisions through the necessity of over-frequent reference back to the central office of matters which could be left to the determination of local line executives.

This division between line and staff authority, however, creates some of the most difficult of the organization problems with which the combination is faced. Such, for example, is the question of the authoritative relationship between a centralized functional staff department and a local functional line department. The responsibility for results probably in this case lies with the local general manager, and hence it is undesirable that orders should be given without his sanction. At the same time the central department has access to the accumulated experience of all the local functional departments, and hence is probably in a better position to make judgments. The adjustment of such problems depends very much on the factor of personality; but they may be greatly simplified if the organization principles involved are faced, and are set out in a definite and clear plan.

B. COMBINATION.

1. Difficulties of Classification.

There have been numerous attempts to classify the different types of combinations which exist, and to define various general terms with which to describe them, such as Cartel, Trade Association, Consolidation, Merger, etc. Examples of some such classifications are given in Appendix I. None of them is wholly satisfactory. Two main difficulties have been encountered: on the one hand, every combination differs from every other in some respects, and many are mixtures of several types, and so are impossible to place in any classification; on the other, there has been a lack of any consistent basis for the definition of terms.

This description of "line" and "staff" authority has been framed as the result of existing business practice, insofar as this has been formalized. It must be recognized, however, that current arrangements in business in this field are usually of an informal character, resting on personality and custom rather than on defined principles. The relationships between line and staff officials, and their respective spheres of authority, are difficult questions which frequently cause friction. In military life the employment by commanders of personal assistants possessing specialized skill but without direct authority, is a practice which has evolved over centuries. Owing to the more stringent character of military discipline it has proved necessary to express the relationships thus established in precise form and in great detail, extending even to the forms of signature to be used by the officers concerned in addressing various grades of authority. They are thus more clearly understood by all concerned than is the case in business. But even in this sphere the nature and limits of "staff" authority and its bearing on line responsibility are one of the most frequent sources of difficulty. In almost all armies the second, if not the first, qualification required of those aspiring to "staff" appointments is tact. v. Von Schellendorf "The Duties of the General Staff" and Staff Manuals of various armies.

Indeed, it is doubtful whether it is possible to classify the complex of factors presented by nearly every combination, and the various manifestations of the movement in different countries, into neatly pigeon-holed compartments, each with a descriptive title. Many combinations possess at the same time and in various proportions features which are generally regarded as typical of one of the main forms adopted in such classification. To take an example, Armour & Co. of Chicago, one of the five chief American meat packing firms, has developed from a small single operating company, till it controls factories all over the United States, and is therefore a combination on a very large scale. It also controls through stock ownership several subsidiary companies engaged in the manufacture of products related to its general line of manufacture. On the ground of its agreements with the other four packers, it was attacked by the Federal Trade Commission as being a member of a Trust aiming at monopolistic control of the market. Thus, in one single combination are features of the following so-called forms: "The Trust", the Holding Company, the Fusion, and the Gentlemen's Agreement.

The main motive, which has prompted such attempts at definition and classification, has been the need of single descriptive terms for juridical purposes, a need which each country has met empirically as the occasion arose. This need has two aspects: Terms are required to describe the legal forms under which combination is actually effected; certain special combination types, because of their social or economic consequences have necessitated some form of special legal regulation and have thus called for descriptive terms.

Attempts at scientific classification have been dominated by the same tendency, and where terms have also been used in common parlance, great confusion has resulted. It is possible, by isolating a single aspect of business combination, to construct a satisfactory series of terms dealing with that aspect only. Every such attempt is, however, likely to break down owing to the tendency to transfer ideas embodied in these terms, when some other aspect of the phenomenon of combination is under consideration. It should therefore be understood that where certain single descriptive terms are defined for the purposes of this report, such terms apply to the single aspect of the total phenomena of combination referred to in the definition, and to that aspect alone.

The first series to be considered will be terms bearing upon the forms of legal ownership involved. A classification of the various economic aspects of combination can only be constructed by analysing separately in each case a number of different factors, such as the purpose of the combination, the methods by which it has been brought about, and the various types of operating relationships which have resulted. Moreover each of these aspects may have to be considered separately in relation to each of the chief functions performed by a business enterprise. A detailed analysis on such lines is given in Section IV, and a graphic representation of the way in which such a classification may be built up, in Appendix II. This shows the difficulty of classifying complex groups of phenomena, which vary

¶ The term "trust" is one of those which have been used with very varying meanings. In the United States, where it is most frequently used, it appears, however, to have become accepted as meaning a combination aiming at some form of monopolistic control of the market, cf. Eliot Jones: "The Trust Problem in the United States", MacMillan Co., New York, 1927, p.1 (2nd edition). "A Trust (industrial monopoly) may be said to exist where a person, corporation, or combination owns or controls enough of the plants producing a certain article, to be able for all practical purposes to fix its price. Control over the price is the fundamental test of monopoly; it is its essential and characteristic feature".

from each other in a number of different ways, into a plan of a single dimension. Such a presentation can hardly claim to be complete, but it serves to indicate the basis on which a complete classification can be built up. While the task of analysis and definition may appear to have a theoretical value only, the evolution of principles applicable to the scientific management of large-scale combinations must ultimately depend on a clear understanding of the very complex relationships involved, both historically and in the current practice of existing combinations. The administrator actually faced with the problems of organization of a combination will find in such an analysis a check on his provision of mechanisms covering every aspect of its operation.

2. The Constituent Unit.

A combination may be defined in its broadest sense as an arrangement by which two or more enterprises have relations, either implicit or expressed, involving either the adoption of a common policy applicable to the whole or to some portion of their activities and/or some degree of joint control.

Constituent unit is the term used to describe the different parts of which a combination is made up. These may be divided into:-

- a. Autonomous Enterprise which, while participating in a combination, retains its complete legal and financial identity.
- b. Allied Enterprise in which proprietary rights are held by another enterprise in a proportion insufficient to secure control.
- c. Associated Enterprise in which proprietary rights are held by another enterprise in a proportion sufficient to secure control but not to involve complete ownership.
- d. Subsidiary Enterprise which possesses legal identity but in which complete ownership is held by another enterprise.
- e. Branch - which possesses no legal identity and is owned and controlled by another undertaking operating elsewhere.

Corporate forms vary in different countries, but from the legal standpoint main varieties of combination may be distinguished.

3. Types of Arrangement.

- a. Arrangements unenforceable at Law. Arrangements involving a considerable degree of common action may exist between business enterprises without any legal sanction. Such arrangements are commonly known as "Gentlemen's Agreements". They usually involve an attempt to substitute some other form of sanction. Such sanctions differ greatly in kind and in degree. In the first place, we find arrangements for common action, which do not depend on any written instrument at all. For instance, two companies may exchange Directors without either acquiring any share in the ownership of the other. While, from the administrative aspect, this is a special form of collaboration, no legal obligation is created. Again, arrangements may be made for personal contact between individuals as in the case of the "Gary Dinners" or of the "Deutsche Frühstückervereinigung". Such arrangements may develop into formal conferences, a type which is a common basis for price-fixing agreements. In general, the sanction sought in these cases is a moral one, secured by pledging the "word of honour" of those concerned.

Secondly, the moral obligation is reinforced by written instruments. In some cases, no party to such agreements is likely to attempt to enforce them legally owing to the disadvantages involved in publicity or for other reasons. In other cases, current legislation, e.g. acts against agreements in restraint of trade, inhibits enforcement, even in cases where it was intended to secure legal sanction. Finally, the parties may seek to establish financial sanctions either in the form of cash contributed in advance which is sacrificed in the event of

breach of agreement or by competitive action against defaulters. Even in countries where legal sanction for such arrangements is lacking it is usually extremely difficult for the defaulter either to recover his money or to prove illegal competitive practices.

- b. Contractual Arrangements. A very great variety of arrangements between enterprises are based on simple contractual relations between the parties. The different arrangements mentioned in the preceding paragraph in countries where such arrangements fall within the law are frequently secured by contract. The forms of contract used in the formation of combinations, which are known to the law are in themselves very various. Two main types may be distinguished. In the first place, we find the contract involved in membership of an association. We find organizations set up by independent enterprises in the same trade or in the same area to render certain specific services to their members, or to take over certain functions of their business. Where such organizations are not intended primarily to make profits, they are not usually established under the law governing the formation of business enterprises, but in some simpler form such as the *Eintragung Verein* in Germany or the Registered or Incorporated Association of Great Britain. While such Associations have a legal personality any member can usually withdraw at will and the obligations are usually only such as are implied in the statutes of the Association. Such Associations are commonly found in the form of Trade Associations ^{¶1}, Chambers of Commerce, Research Institutes, and so on.

In the second place, we have the direct contract between parties which is far more specific both as to the obligations involved and as to the purpose it is designed to serve. As opposed to the Association it is usually also for a definite term. The form of the contract may differ in accordance with this purpose, a matter which will be discussed in considering the operating arrangements involved in various types of combination. For instance, contracts may involve agreement to sell only through a particular channel, to rent and operate a factory under specified conditions, to manufacture only particular sizes, types or quantities of goods, and so on. The majority of the combinations which are generally described as "cartels" rely upon permutations and combinations of these two types of contract. In Germany, no legal obstacles are placed in the way of such associations, although safeguards against their powers have been enacted by a special law passed in 1923. No definition of a Cartel was given in the law, but the definition of Professor Liefmann seems to have been generally adopted by the courts. "A Cartel is a voluntary combination of business enterprises engaged in the same line of business, and each retaining its ^{¶2} independence, for the purpose of establishing monopolistic control of the market. In America this form of organization was known as a pool, and was often used before the passing of the Sherman Act in 1890, which made it illegal.

¶1. cf. Definition of Trade Association formulated by the American Trade Association Executives. "A Trade Association is an organization of producers or distributors of a commodity or service upon a mutual basis for the purpose of promoting the business of their branch of industry and improving their service to the public through the compilation and distribution of information, the establishment of trade standards and the cooperative handling of problems common to the production or distribution of the commodity or service with which they are concerned". See Hand Book, American Trade Association Executives, Chicago, 1924.

¶2. Liefmann "Kartelle Konzerne und Trusts", 1927. "Ein Kartell ist eine freie Vereinbarung oder ein Verband zwischen selbständig bleibenden unternehmern derselben Art zum Zwecke monopolistischer Beherrschung des Marktes".

c. Ownership Arrangements. The third main type of legal arrangement under which combination takes place is concerned with the ownership or part-ownership of the equity of the existing units or of specially created units under the various forms of legal organization applicable to the individual business. Such arrangements issue in a variety of forms:

1. ^{¶1} In the first the legal identity of the constituent units is maintained - the Combine. Two types may be distinguished:-

a. Where the ownership is mutual and involves -

- i. Joint property of two or more enterprises in a further enterprise created for a special purpose - Joint Ownership.
- ii. Mutual ownership by two or more enterprises of a proportion of their respective equities, without legal control vesting with either one of them - Mutual Ownership.

b. Where the legal control is unified -

- i. Either in one of the existing units - the Parent Company or
- ii. In a special unit created for the purpose - the Holding Company.^{¶2}

2. In the second the legal identity of the constituent units disappears - the Fusion, and one unit emerges either -

- a. One of the existing units - The Merger, or
- b. A new unit specially created for the purpose - The Consolidation.^{¶3}

IV. THE ECONOMIC ANALYSIS OF THE COMBINATION.*

A. DIVERGENCIES BETWEEN THE LEGAL AND ECONOMIC ASPECTS.

In the last section was given an analysis of some of the chief legal forms of combination structure. Cutting across these lines and of greater importance, from an economic point of view, is the question of their operating structure. For example, several firms may decide that economies could be effected by combining their purchasing of certain commodities. Under some circumstances, dependent chiefly on the financial and legal conditions of the moment, this might lead to the formation of a combine or fusion under others merely to the setting up of a purchasing association. And while in one case the combining units would be giving up their legal autonomy, and in the other, maintaining it, there might in actual fact be no difference in the degree of authority exercised by the

¶1. A comparison with some of the classifications given in Appendix I shows that the meanings of the terms here used, vary with different writers, and while as far as possible terms are selected in accordance with their general use, this selection must necessarily be somewhat arbitrary, e.g. L.H. Haney "Business Organization and Combination" where 'Amalgamation' is used for the situation described as 'consolidation' in this report.

¶2. In American legal practice the term Holding Company would cover both the Holding Company and Parent Company form. The term indicates any corporation which has the right to purchase and hold stocks in any other corporation. This right was first granted by an amendment of the corporation law of New Jersey in 1893. Other states subsequently followed suit.

¶3. cf. Elliot Jones "The Trust Problem in the United States", Macmillan Co. 1927, 2nd edition, p.32 footnote, which reads: "Some legal authorities make a distinction between a consolidation and a merger. Thus Thompson, Law of Private Corporations (second edition) says "There seems to be a recognised difference between 'consolidation' and 'merger'" (see. 6036). Consolidation takes place where two or more existing corporations are consolidated with a single corporation, and the existence of the uniting corporations is terminated and the consolidated company succeeds in a general way to the rights and franchises, and acquires the property and assumes the obligations and liabilities of all the constituent companies". (See. 6035) (Continued at foot of next page)

* For this section compare chart in Appendix II.

central organization. Combines exist in which the central organization prefers to leave as much actual authority to the subsidiaries as if they were independent companies. Conversely, cooperative associations are found, where the most important administrative functions are delegated away from the local controlling units, and are never interfered with by them. Hence, it is especially interesting to attempt to discover how far under entirely different legal forms and in different countries the same economic considerations have nevertheless brought about a similar operating structure within the combination.

In analysing the combination from its economic aspects, there are three main groups of factors which must be considered. First, what is the type of combination, that is to say, what are the chief functions performed by the constituent units, and what are the technical relationships between them? Secondly, what is the object for which the combination was formed? And thirdly, by what methods do the combining units seek to make this object effective?

B. TYPES OF COMBINATION.

By the type of the combination is meant the economic relationship between the predominating functions performed by the establishments of which it is made up. This analysis thus considers, primarily, the main productive, distributive or service function which characterizes the enterprise and to which all others are subservient? In considering, however, either the way in which a combination has been brought about, or the best methods to adopt in bringing a combination into being, it is important also to make a detailed comparison of all the functions performed by each of the combining units. For example, the method of financing the combination must take into consideration the existing financial arrangements, whether the constituent units are partnerships or limited liability companies and as to what form of securities are outstanding. On the administrative side the success of a combination may often depend on the knowledge as to where administrative power lies, not according to the theoretical organization plan, but according to the psychological reality, and to its satisfactory adjustment under the new scheme.

1. Administration.

From the standpoint of their administrative functions combinations can only be regarded as static structures for the purpose of analysis and description. In actual fact they are in a process of perpetual development. The facts, as opposed to the legal forms of administrative structure, are largely concerned with two main points:-

- a. The weighting of control as between central and local units concerned with administrative processes.
- b. The division of administrative responsibilities reserved to the central establishment as between various individuals or composite bodies.

23 (continued from previous page)

A merger, on the other hand, "exists where one of the constituent companies remains in being, absorbing or merging in itself all the other companies" (Sec. 6037). But in Judicial and Statutory Definitions of Words and Phrases, 1914, p.908, we are told that the terms consolidation and merger are not always used with strict accuracy. As one authority puts it (ibid, 1904, p.1452), the term consolidation is an elastic one, and may include a union of two or more corporations into a new one with a different name, with or without extinguishing the constituent corporations, or the merging of two or more corporations into one existing corporation under the name of the latter. See also Noyes on Intercorporate Relations (second edition) sections 7-8. For our purposes there is nothing in particular to be gained by determining whether the property of the companies combined has been turned over to a new corporation or has been acquired by an already existing corporation; and we shall, therefore, use the terms consolidation and merger interchangeably.)

a. It is clear that the first point is largely psychological and any general classification can only be based on psychological conceptions. With regard to any given administrative questions:

- i. Influence exists where there are arrangements, either unilateral or mutual, by which one unit advises another, both however retaining complete initiative and identity.
- ii. Cooperation exists where there are arrangements not only for mutual exchange of views but for formal discussion of policy and definition of common aims, but without established machinery for securing common action.
- iii. Coordination exists where there are formal arrangements for cooperation and in addition machinery for securing common action, but without formal limitation of the initiative and responsibility of the units concerned.
- iv. Centralization exists where the initiative and responsibility for and conduct of defined activities are taken from one unit and placed with another.

b. With reference to the second point the forms of organization adopted correspond to those met with in the individual business. Administrative responsibilities may be assigned either to composite bodies (Boards or Committees) or to individuals. The preparation of material leading to the decisions by which such responsibilities are discharged and their communication to those responsible for taking action on them may be assigned either to a member of the Board or Committee (Managing Director) or to an officer assigned to the Board or Committee for that special purpose (Secretary) or to an executive officer not a member of the Board or Committee (General Manager). The various administrative responsibilities may be divided up:

- i. By degree of authority, as when a Board appoints an Executive Committee responsible to it: in this case the functions of the remainder of the Board become advisory or supervisory. Or again, as in Germany, where definite bodies, provided for in the legal structure of the limited liability company (Aktiengesellschaft) are responsible for different degrees of authority in the administration of the enterprise (Vorstand, Aufsichtsrat).
- ii. Territorially, where Committees of the Board or individual members are responsible to it for the administration of various areas in which the combination has activities.
- iii. By products, where similar arrangements exist, but the division is by different products with which the combination is concerned.
- iv. By processes, where similar arrangements exist but the division is by different processes in the total cycle of the combination's activities.
- v. Functionally, where similar arrangements exist, but the division is by the different subjects, finance, research, advertising, etc., which come up for decision in the administration of the combination.

2. Production.

From the point of view of their main productive functions, combinations have sometimes been divided into two main types: the 'horizontal' where the constituent units are performing the same or similar production processes, and the 'vertical' where these processes may be quite dissimilar, in their nature, but they are all contributory to the production of the same commodity

or group of commodities. In the horizontal combination the units are generally operating at approximately the same stage of production, while the vertical combination is usually between units operating at different stages in the total productive process.

Of the horizontal type is the Rhenish Westphalian coal cartel §1, composed under the agreement of 1925, of some seventy-four members engaged in the coal mining industry, though the functions performed by each company vary considerably. To take a few examples, one member is a mining enterprise, branching off not further than to operate coke ovens, another a briquette manufacturing plant connected with coal mining, another a steel plant, producing its own coal, another a mixed enterprise based on steel; enterprises all varying in their functions, but connected with the same fundamental process of coal mining. The tendency of the German Cartel form, which, for the major part has for its object the limitation of prices or output, is towards horizontal combination. The same tendency was seen in the early American Trusts, which aimed at monopolistic control of an industry; though in some cases they also reached out towards controlling sources of supply in the vertical form of integration.

Of the vertical type a well-known example is the English soap combination, which, starting with the manufacture of soap and glycerine, has developed, in order to control its own raw materials and supplies, into the fields of banking, shipping, engineering, mining, building, whaling, seed crushing, oil refining, and the operation of plantations and fisheries, as well as into the manufacture of related finished products. §2.

In the last ten years there has been a development towards combinations of a new type, especially common in the United States. This is sometimes rather ingeniously called the "circular" type. While, previous to the war, the advance wing of American industry was exploring the possibility of economies in production, through new technique and improved efficiency methods, the emphasis of the post-war period has been on possible economies in the field of distribution. This has led to the growth of combination between business establishments which have no productive connection with one another, but which either distribute through the same channels, or through complementary channels. Of this type are the Remington Rand Incorporated, a combination between establishments producing among other things, typewriters, adding machines, loose-leaf binders and filing devices; and the General Foods Company, which now comprises a number of small firms, all selling ultimately to the retail grocer such products as breakfast foods, coffee, chocolate, tapioca and ice-cream powder.

Besides these types of combination, there are some of a local, national, or international scale, where there is no technical relationship between the combined enterprises, but which represents rather the attempt of an individual or financial group to spread out their interests into a number of different industries. This type of combination in Germany is sometimes called the 'konzern'. A number of such konzerns of the type of the Stinnes combination were built up in the post-war inflation period, but on the whole they have not proved to be a very permanent form, as they lack any rational economic foundation. In this particular instance, many of them collapsed when the stabilization of the German currency took place.

§1 See R.N.Nichols, "Cartels, Combines and Trusts in Post-war Germany", Columbia University Press, New York, 1928, p.81.

§2 Report on the Soap Industry, Cmd. 1126, Prepared by the sub-committee appointed by the Standing Committee on Trusts under the Profiteering Acts. London. H.M.Stationery Office, 1921.

The distinction of such types into horizontal, vertical and circular, represents only a popular classification serving to indicate some general trends. Actually the possible relationships between the chief functions performed by industrial establishments, vary in a great number of different ways, while in practice many combinations are complexes of several different functional relationships.

A more detailed analysis of these possible types has been made by Willard Thorp, in a statistical study of a group of combinations in the United States, compiled from the census material. §1.

Thorp divides the possible types of relationships between the chief technical functions performed by the establishments in the group of manufacturing industries, which he was studying, into five:-

Uniform Functions.

Divergent Functions: 1. Joint products;
ii. By-products;
iii. Like processes.

Converging Functions: 1. Complementary products;
ii. Auxiliary products;
iii. Like markets.

Continuing Functions.

Unrelated Functions.

a. Uniform Functions. The first group includes those combinations where the constituent units are performing functions similar in regard to materials, processes and products. Of the 4813 combinations included in Thorp's study, some 62.9% are of this type. While this is the most numerous, it is also the most easily understandable type of combination, arising on the one hand through the merging of competitors, on the other, through the simple expansion in size of an establishment by purchase or the creation of new units engaged in the same processes of manufacture.

b. Divergent Functions. Taking the raw material as at one end of the line of a productive process, and the finished product at the other, these establishments which start with the same process and end with different ones, are said to be performing divergent functions. For example, where cotton cloth is the material, one establishment makes it into awnings, and another into pyjamas. There are three sub-divisions of this class, "joint products", where the products diverge at a natural break in the manufacturing process, and not at the option of the producer as in the above example; "by products", where the production of one necessarily arises out of the production of another, for example cotton seed oil, and cotton seed cake; "like processes", where different materials are subjected to like or similar production processes, as in a combination between a zinc smelter and iron smelter.

c. Converging Functions. The opposite type of combinations are these where the functions are said to converge, starting with different processes, and ending with the same. These again are divided into three: "complementary", for example, where a wood turning plant and a foundry combine, both contributing to the production of agricultural implements; "auxiliary", where some establishments are accessories to the main process of production, as where a

§1. "The Integration of Industrial Operation" by Willard L. Thorp, 1924. Dept. of Commerce, Bureau of the Census, Washington. Census Monographs III. p.161.

single machine shop is attached to a number of railroad repair shops. Finally, where convergence occurs within the market, as in the case of metal beds and felt mattresses.

- d. Continuing Functions. (A vertical type). This is where each establishment performs a consecutive function in the total production process. This may be either where the same material is passed through a series of different processes, as in the spinning and weaving of cotton, or where one process merely contributes to the next as in the case of the manufacture of tools for use in a subsequent production process.
- e. Unrelated Functions. The final classification is where the functions have no technical association, as in the illustration already given of the Stinnes Konzern.

3. Distribution.

This study only includes groups of enterprises engaged in various manufacturing industries, but it is possible also to construct a similar analysis applicable to combinations in the distributive fields.

The processes covered by the field of distribution, are those of transferring a finished product from the manufacturer to the ultimate consumer, and the area of the distributive processes may be said to be bounded by the manufacturer at one end, and the consumer at the other.

- a. Uniform Functions. The distributive enterprises which enter into combination are said to be performing uniform functions when their operations are similar in regard to products, processes (or distributive methods), and markets. This happens for example when two tobacco stores in the same town enter into combination to prevent competitive price cutting, or for other reasons.
- b. Divergent Functions. Where the establishments which enter into combination are performing functions which start with the same source of supply and end by dealing with different markets they are said to be performing divergent functions. There are two subdivisions of this class of combination, first where the enterprises are dealing with similar products, but are distributing them by different methods, such as in a combination between a mail order house and retail store who are both dealing in the same types of products. Next comes the case where similar products are being distributed by similar methods, but to different markets, as for example where a combination takes place between two drapery stores performing approximately the same functions, in different cities. Thus this type includes the majority of the chain store combinations. It also includes the cases where combination occurs between establishments trading in the same area, but to different classes of consumers, as where a millinery shop selling high-grade goods combines with another selling goods of lower grade, in order to broaden its market.
- c. Converging Functions. The functions of two establishments are said to converge when their operations start with differing products and end with the same markets. The convergence may come at any stage in the distributive process, but roughly there are two types: a) where the convergence comes at the wholesale level, as for example if two companies combine who are purchasing goods wholesale from different manufacturers and selling to the same retailers, with the object for instance of economizing salesmen's salaries or warehousing expenses; b) where the convergence is at the retail level for example between two enterprises engaged in distributing different types of products to the same market as where a tobacco shop combines with a confectionery shop in the same village.

- d. Continuing Functions. (A vertical type). This is where combination occurs between establishments operating at different stages of the total distributive process, as between wholesaler and retailer.

C. OBJECTS OF COMBINATION.

1. Classification of Objects.

Having considered what are the activities performed by the establishments which are to be brought within the combination, and whether there are any technical relationships between them, the question next comes as to what are the causes which have led them to combine. These causes are many and various, as many and various as the types of combination themselves, and in particular cases, it is difficult to discover for certain what they are since the published 'objects' of the combination are often quite different from the real motives which led to its formation. In general, however, it may be assumed that the fundamental motive is either to maintain a certain price level, or to cut costs through some form of economy which is expected to result from operating the combined enterprises as a single unit. The following list shows some of the chief ways in which this may occur; for purposes of analysis the objects of combination are considered in four sections, corresponding to the four chief functions of the business - Finance, Administration, Production and Distribution.

2. Financial.

- a. To make profits for promoters.

Every combination is brought about by a promoter, and in the case of combinations where a large number of independent enterprises are involved and it is difficult to get the owners together to agree about the terms, the promoters are often bankers or lawyers who do not necessarily have a further interest in the new enterprise once it is in existence. Some of the functions of the promoter are: deciding what enterprises are to be brought into the combination, obtaining options on their properties, raising the necessary capital, deciding the terms of purchase or of exchange of shares, and often choosing the administration and the outlines of the organization of the new concern. The profits which the promoters make out of this process may in themselves become an important incentive to the formation of combinations. In his account of the early American Trusts (1), Professor Eliot Jones has shown what an important part the profits of promoters played. These profits were often the cause of over-capitalization. Professor Jones estimated that in some ten of the steel trusts formed between 1898 and 1900 the total average ratio of stock representing promotion charges to issued capital stock (including preferred stock) was 10.1%. The syndicate which was responsible for floating the United States Steel Corporation took a profit of \$62,500,000 out of this transaction alone. Many of the 'mergers' in the United States in the last few years have been thought to be due to similar motives. The desire to find profitable new stock issues to put on the market during the recent stock market boom made many financial groups interested in finding possible groups of firms to bring into combination.

- b. To invest surplus capital or profits.

The existence of surplus capital or profits to be invested sometimes leads to combination through the development of a financial interest along lines where special knowledge is available; by investment in the same or related lines of industry or in an industrial activity in which some member of the administration is interested. The relationships so

(1) Eliot Jones "The Trust Problem in the United States", the MacMillan Co. Ltd., 1927, p.283 - p.299.

established enable further knowledge and interest to be developed on the part of the owning company, which frequently leads ultimately to the purchase of a controlling interest, or to complete fusion.

c. To facilitate the raising of capital or credit.

It often happens in the case of enterprises with old-fashioned factories and machinery, and where financial results are unsatisfactory, and hence it is difficult to raise capital for reorganization, that to enter into a combination which shows promise of increased efficiency and economies of joint operation may make possible the raising of capital or credit on far more favourable terms. Sometimes also, the object of creating a subsidiary in another country or of combining with a company established there, may be to widen the area from which capital may be drawn. These are but two instances of the several ways in which the formation of a combination may facilitate the financing of the enterprise.

d. To spread risks.

The development of an enterprise through combination into new areas or new lines of manufacture has the effect of diminishing the risks of the business since there is less likelihood of a sudden slump of trade or prices affecting all sections of its operation. This incentive to combination is apt to be particularly strong where the administrators of the business also hold a large percentage of its shares since their personal credit is thus closely involved with the value of a single security.

e. To evade taxation, or other disabilities imposed by company legislation.

High taxation - or the imposition of a rigorous company law involving the publishing of detailed figures may be the cause of combination through the transference of a part of the business to states or countries where the regulations are less severe. In the United States, the differences in state company legislation often make it advantageous to register separate subsidiary companies for trading in particular states both with the object of diminishing the total amount of taxation paid, and also to facilitate accounting to each of the taxing authorities involved.

f. To escape Tariffs.

Combinations sometimes arise because an enterprise which plans to distribute in a highly protected area finds that it pays either to form a subsidiary for manufacture there (or assembly of parts) or to combine with an enterprise already operating within the area, rather than to pay the duty.

3. Administrative.

a. To increase the personal power and influence of executives.

It has sometimes happened that a combination has developed from a single establishment by reason of the strength of the personality or personalities at its head, who, finding their activities limited by the size of a concern with restricted potentialities, find a natural outlet for their administrative faculties in bringing together a larger and more economic grouping. Some of the largest combinations are thus the result of the organizing initiative of some single individual such as Henry Ford, or the late Lord Leverhulme, who have built up flourishing combinations as a result of being the first to realise the possible economic opportunities inherent in the new methods of organisation within their sphere of industrial influence.

b. To secure the assistance of more experienced administrators for small enterprises.

A common instance of this motive for combination is found in a disorganised and badly administered industry, where bankers or others who are financially

interested in it may organize a combination for the purpose of effecting administrative changes, and bringing in executives who are competent to bring the methods of the industry up to date. From within a company also, combination may sometimes be welcomed as a means of securing the benefit of more competent executives from other enterprises, and as a means of making other changes in the personnel of the administration which for legal or psychological reasons might be impossible under the existing organization.

c. To co-ordinate administrative policy for the industry or group of enterprises. The necessity of formulating some uniform policy for an industry, for such purposes as negotiations with the government, or to adopt uniform methods to meet foreign competition, or to prevent over-production and price cutting, is sometimes a cause of combination; the first informal conversations often leading to the development of a formal association, or to periodic conferences of the leaders of the industry.

d. To exchange data and experience.

The collection and dissemination of trade statistics and the exchange of information on such subjects as sales, sources of supply, methods and standards used, has been increasing in recent years with the spread of a more scientific attitude towards business. In some instances it has proved an incentive to combination especially, perhaps, of the trade association form. It is possible however to achieve this object without the actual formation of any degree of combination, merely by the friendly exchange of information and opinion. In some cases this has merely found its expression through the Management Research Group movement, but in others it has proved an additional incentive to the movement towards direct combination between business enterprises.

4. Production.

The objects with which a combination may be formed, in an endeavour to effect economies in the productive side of the business are of two kinds, those concerned with lowering the costs at which materials and supplies are obtained, and those concerned with diminishing the costs of the actual manufacturing processes.

a. To lower costs of material.

i. By eliminating profits of middlemen.

A combination which results in the direct ownership of sources of supply of raw materials, or which integrates a number of consecutive processes under one control, has the advantage of cutting costs through eliminating the profits taken by middlemen at different stages of production. In the case of raw materials such as cotton or grain, which are liable to natural fluctuations in price owing to uncertainty of crops, and in addition to the speculation of middlemen, the ownership of sources of supply has the further advantage of preventing the manufacturers in question from being affected by violent fluctuations in the cost of primary materials. An assured and steady supply of materials or of component parts, to enable more accurate scheduling of production and eliminate wastes either of idle machinery or of excessive stocks, is another object which sometimes brings about either an attempt to control the sources of supply of materials, or the formation of purchasing associations.

ii. Access to alternative, standardized or improved materials.

There is further the possibility of standardizing the sizes and quality of the raw materials, and of eliminating defects which are found in the course of manufacture, or of obtaining, through control or agreement, access to alternative materials. An instance of a

combination developed with the object of improving raw materials is found in a small fruit packing and importing corporation in New York which bought up a date plantation in Basra with the object of experimenting in improving the size and quality of the fruit.

iii. Special terms for bulk purchases.

The discounts which may be obtained for large-scale purchases, and especially in the case of a guaranteed purchase of the whole of a producer's stocks, are a further incentive to combination between enterprises using the same materials. Some of the modern chain store combinations base their successes mainly on the economies of mass purchasing. These are found not only in the possibility of obtaining quantity discounts, but also through the establishment of a more widespread and highly skilled purchasing organization that would be possible for the individual enterprise. These same reasons have caused the growth of associations for joint purchasing alone.

b. To lower costs of manufacture.

1. Simplification.

There are a number of economies connected with the actual process of manufacture which may be effected as a result of combination. One of these is the simplification of the number of sizes and types of products. Especially in the production of consumers' commodities and in an industry where there is excessive competition, there is apt to be excessive multiplication of varieties of the finished product in the attempt to find some novel attraction with which to sell it to the wholesale or retail dealer. Through combination, whether in the form of agreement, or of amalgamation, it is often possible to simplify and to reduce the number of sizes and types of products, and hence to effect the economies of larger scale and more standardized production.

ii. Standardization.

Besides the simplification of the product, a further object of combination is often the possibility of standardization, which means an extension of the use of the same sizes, parts, processes or methods over a wider area. Without standardization of process, mass production, and the full economies of machine production and of the division of labour are impossible, and agreements about standards are thus especially common in the mass production industries. As within the single enterprise, standardization has come to mean the adoption of a standard best method for every detail of production, inclusive of standards of performance for labour; and hence combination may mean the spreading of the area of application of the most scientific methods. As within the industry, or group of allied industries, standardization is most important as regards such questions as determining dimensions and qualities for raw materials, standard parts, etc.; questions which are often settled through trade associations or similar forms of organization.⁶

iii. Specialization.

Subsequently to the formation of a combination between enterprises engaged in similar types of production, there arises the possibility of specialization, that is, where the handling of particular products, or sizes of products, or the conduct of particular processes is unified in a single enterprise or series of enterprises. A common form of special-

⁶ cf. Harvard Business Review, Vol. II, No. 1, October 1923, p. 87. "It has been estimated that the adoption of dimensional standards in the automobile industry for instance, entailed a saving of \$750,000,000 in 1920 alone." Richard Arnold May: "The Trade Association and its place in the business fabric."

ization is where certain factories take over the production of particular parts of a product, and others concentrate solely on the assembly of the finished article. Another type of specialization is where the combined enterprises were previously each making a full line of products, for example of agricultural implements, and subsequently each specializes on the production of a single type of implement. The economies which result from specialization are chiefly those of larger scale production, simplification of management problems, better scheduling of production, and greater specialization of administrative and of workers' skill.

iv. Concentration.

Concentration of production goes one step farther than specialization, in that it also involves the elimination of previously existing units or activities. It is perhaps most common in industries where there is over-production, and where combinations are formed with the object of concentrating production in the most efficient factories and closing the least efficient. Sometimes, however, the object is not the closing of a factory, but merely to concentrate particular processes or particular business activities, as for example, where two research laboratories are amalgamated in one, or a single central legal department set up to take over the work previously done by several independent departments.

v. Facilitation.

Facilitation is here used to mean the adjustment of difficulties at any stage in the total chain of productive operations. For instance, combination may be formed with the object of preventing shortage of supply at any stage, or to prevent difficulties in maintaining a steady labour force, due to seasonal fluctuations in the trade. Another object may be to integrate production so as to adjust the output more accurately to meet market demands, and prevent the accumulation of excessive stocks. In other cases combination may be with the object of utilising waste or by-products, by the creation or acquisition of an enterprise which can employ them.

vi. Promotion of Scientific or Technical Research.

The possibility of increased expenditure on research, or of the pooling of existing research facilities, is often mentioned as one of the objects of combination. Undoubtedly technical and commercial research are an important part of the work of trade associations and the like, and many such combinations now spend large sums for this purpose. A recent American writer has however expressed the doubt as to how far their formation has actually been affected by this objective.⁶ Though not often a primary cause of combination, however, this may sometimes be an additional incentive.

vii. Exchange of Patents.

The pooling of patents in an industry, and especially where rival firms hold patents which block one another, is a frequent object of trade associations and cartels, and sometimes even of the complete purchase of enterprises holding mutually valuable patents.

viii. Collective Bargaining.

Finally, combination may have as its object the negotiation of agreements with labour. In countries where labour is organized in national unions this is frequently met by the organization of the employers in an industry

⁶ "The inquiries I have been able to make along this line have indicated that in few cases if any have anticipated economies in research been prominent in the minds of the promoters, at the time of consolidation; but certainly in many cases central laboratories and statistical units have been developed". Z.C. Dickinson "Research and Development Activities of Business Organizations", American Management Association, 1928.

on a national scale. Sometimes, however, this leads not to industrial agreements, or cartellization, but to local combinations between employers for the purpose of agreeing as to the price to be paid for labour in the district.

5. Distribution.

Finally, come those combinations which are formed with the object of achieving economies in selling, advertising, or any other branch of the total function of distribution.

a. To lower costs of distribution.

i. Specialization.

Parallel to the economies of specialization in production are those of the specialization of distributive units. Such may be the setting aside of certain branches, offices or departments for some single aspect of the total distributive process or the allocation of smaller areas, or fewer products to salesmen, so that they may obtain a more specialized and intensive knowledge of their goods, markets, and methods.

ii. Concentration.

Two enterprises which have selling branches in the same locality, or the same foreign country, may be able to reduce ^{overhead} expenses by closing one of these branches, and concentrating all their business into the other. The economies of concentration may also be applied to staffs, agencies, and to advertising, as for example, if the same advertisements can be used, either explicitly or implicitly to advertise two products. Further, if competitors combine a great deal of unnecessary and purely competitive advertising may be eliminated.

iii. Economies in Transport.

Combination between enterprises in different parts of the country may make possible economies in transport charges through the concentration of production in factories operating close to the distributive area. The system, now widely adopted in some industries of manufacturing parts at the central factory, and having the parts assembled with the finished product at scattered factories close to the point of consumption is an example of the way in which this form of economy may be realized through combination.

iv. Elimination of Middlemen's Profits.

As in the purchase of the raw material, so in the sale of the finished product, it is possible to reduce costs by the elimination of profits taken by the middleman. A result of the tendency to combination both among producers and also among retailers, is to eliminate the independent wholesale distributor. The producer aims at building up a large enough sales organization to be able to go directly to the retailer, and to warehouse the goods himself until such time as they can be despatched to the retail purchaser.

b. To increase distribution.

i. Collective advertising.

Besides the attempt to lower the costs of distribution, combinations are also formed with the intention of increasing its amount by various devices. Among these is the possibility of running an advertising campaign on a far larger scale, through a number of enterprises combining to advertise their products together. Sometimes, one product is used to advertise another as in the common practice of enclosing with any sale an

advertisement of a related product sold by the same company, or again, a joint advertising campaign may be conducted, of the type where a single advertisement is used to advertise several products, such as the 'Eat More Fruit' campaign. Finally, advertising of the products of a group of companies may be of an 'institutional' nature. This emphasizes the name of the company as such, and its size and importance in the community. When in doubt, a buyer will usually prefer a commodity made by a firm with whose name he is familiar, than by one of which he has never heard.

ii. Extension of sales to new areas or new classes of customers.

Combinations are sometimes formed with the intention of increasing sales by utilising the sales force of one of the combined units, to sell the products of them all in areas which had not previously been entered by the other members. Or it may be found that to sell the products of the combined companies it is worth while to establish selling branches in new areas, or to new types of consumers, which would not have paid if selling only one of the products. An example may be quoted of an enterprise engaged in the production of cotton goods, and selling only to other manufacturers, which, wishing to establish sales direct to certain classes of retailers, combined with another producing company with a sales organization already performing this function.

iii. Increased facilities for sales research.

By combining their activities a number of enterprises have obviously greater opportunities for research into sales possibilities. By unifying the amounts spent on research, and the publishing of results to all the units, the expenditure goes further. The circulation of sales statistics within the combination facilitates the detailed comparison of costs, and should make possible more accurate forecasts of sales. This applies both to the forecasting of general economic trends, and also to details of classes of sales in particular areas.

c. To maintain or increase selling prices.

Especially in the case where the combination is in a monopolistic or quasi-monopolistic position, profits may be increased not by increasing the efficiency of distribution, or by increasing trade at the expense of rival producers, but by raising the selling price. Combinations have been formed in many branches of industry with the object of raising prices, or in bad times, of preventing them from being driven below a level which will cover costs of production. Some of the methods by which this object may be achieved are as follows:-

i. Regulation of output.

To prevent over-production and a consequent depression in prices there may be an agreement to limit output, either by restricting working time, for example if all the members of the group agree to work a four-day week instead of five and a half, or by some system of regulating output to meet current demand. This is sometimes done by pro rating the output of each member according to the percentage of the total output of the group produced by him during the previous year, but without limiting the total production. Hence if trade improves each member may increase his output, but only in the agreed proportion. Production in excess of quota is usually penalised by some form of cash payment.

ii. Limitation of output.

In other cases, the actual amount of output of the combination as a whole may be regulated by the controlling board, or by agreement between the independent members and the proportion assigned to each member determined either according to their previous actual production, or to their capacity for production.

iii. Allocation of markets.

Another method of maintaining price is by the allocation of markets according either to areas, type of market, or according to products. This means an agreement to leave certain parts of the country, certain methods of distribution, or particular products to specialized enterprises. The prevention of foreign interference in a domestic market is often the cause of international cartel agreements.

iv. Fixing of prices.

Finally come direct agreements as to prices to be charged. Such agreements are common in differing forms in many branches of industry. They vary from the informal agreement between competitors to notify each other of any anticipated change in prices, to the submission of the fixing of all prices to a central board.

D. METHODS OF COMBINATION.

After this description of the possible types and objects of combination, comes the question as to what methods are adopted by the enterprises involved in the process of actually creating the combination. Some common machinery through which the intended objects may be achieved must be set up, and certain guiding principles established for its operation. This may be made clear by considering the way in which coordination is effected in each of the chief functions of the business in turn.

1. Finance.

There are three chief methods by which financial connections may be established within combinations. The relationship may be either in the nature of a subscription to some common fund, or of a sharing out of profits, or there may be an adjustment of the financial ownership of the combined enterprises.

a. Subscribing Relation.

1. Fixed Sum. The simplest form of a subscribing relation is where each enterprise pays a fixed annual subscription to a common fund which is used to finance the central machinery of the combination. An example of this is found in a research institute, to whose support each member agrees to pay an annual subscription, and in return, the services of the Institute are available to them without charge.
- ii. Percentage of Undetermined Sum. Instead of a subscription which has been determined beforehand, the constituent units may agree to the payment of a fixed percentage of the total expenses of the combination. It may be arranged that at the end of the year the expenses of the research institute - distributing agency - purchasing association - or whatever it may be - are to be divided up amongst the members. The allocation of this sum may be either under the control of some body set up for the purpose, to which the members submit the decision of their respective liabilities, or the percentage may be agreed beforehand, each member contracting, not for a liability of a fixed amount, but to an agreed proportion of what the total is found to be.
- iii. Liability for penalty. In this case the financial relation is negative rather than positive. That is to say, there is no agreed subscription, but there is an agreement as to liability for a penalty if certain obligations imposed on the members of the combination are not carried out. For example an agreement may be reached by a number of owners of coal mines with regard to the limitation of output. The quota for each mine is determined in the agreement and there may be further imposed a penalty in the form of a forfeit to be paid into a central fund on each ton of coal which is produced above the quota.

b. Profit Sharing Relation.

1. Of common enterprise.

Where there is a profit sharing relationship, the constituent units still remain independent from the point of view of ownership, but enter into agreement with regard to some part or to all of their profits. This agreement may be in regard to the pooling of the profit of a common enterprise set up and owned by the combining units, or of the assembled profits of these units. In the first case, an instance which sometimes occurs is where two enterprises trading in the same country are competing in some foreign market. With the intention of meeting the competition of other countries more effectively, or at any rate, of diminishing the costs of competition, they may decide to set up a separate company to take over the business of both of them in that area, and to share the profits of it in an agreed proportion. A rather different type of profit sharing arrangement is found in the selling association where a central organization is established which takes over the output of the member producers at a fixed cost price; sells at the best market price obtainable and re-distributes the profits to the producers in proportion to their sales quotas or to their share of ownership of the association.⁶

ii. Assembled profits of independent enterprises.

In some cases a contractual agreement with regard to some regulations of trade, as for instance, allocation of markets or price agreements, is further enforced by an arrangement to pool all or part of the assembled profits of the combining enterprises.

c. Ownership of Principle Relation.

Finally come those numerous and diverse cases, where the method of financial combination is through some adjustment of the ownership of the principle of the constituent units. The differences between combinations as regards this adjustment are of three kinds: first as to the degree of control held by the central body over the constituent units, next as regards the form of the financial relationship, and finally as regards the method by which it is acquired.

i. Degree.

The degree of financial control acquired by one enterprise over another may be infinite, but for practical purposes three distinctions are important: where there is a minority holding, that is, the proportion is insufficient to secure legal control of policy (50% or less of the voting rights controlled): majority control, where the proportion is insufficient to secure control, but there are also other owners who have an interest in the profits of the business (over 50% but less than 100% of the voting rights controlled): absolute control where all the controlling capital is held by the other company, as in the case either of a subsidiary company, or of a branch which has no legal right to own capital in its own name, and hence is operated as a part of the parent enterprise.

ii. Form.

The form of ownership relation may be either where there is mutual ownership of principle between two enterprises, each being a part owner of the other, or where one has some share in the control of another or group of other enterprises.

iii. Method.

The methods by which one enterprise actually acquires the control over another may be:

⁶ Compare the organization of the Rheinisch-Westfälisches Kohlen Syndikat A.G.

- (1) Where the assets are purchased either for cash, or in exchange for shares of the purchasing company, or for other consideration, such as permission to use a patent held by the partner enterprise.
- (11) Where new capital is created by the issue of shares on the part of the purchasing company, or by the creation of a new financial entity to take over the assets of the combining units.

2. Administration.

The methods by which combination is achieved in the financial sphere are generally decided at the moment of coming together and are only altered when any alteration is made in the fundamental structure. The administrative methods, however, and those concerned with the management of the productive and distributive functions are often more gradual in their application, and control is achieved rather as the result of a slow process of penetration than as the result of a particular organizational change made at the time of combination. This process involves problems which are really those of the current administration and management of the combination and which have to be worked out individually by each organization in question. Such problems are outlined briefly in Section IV of this report, while this section deals only with the obvious changes in the organization of the administration which are brought about in an attempt to coordinate policy, at the time the combination is formed.

a. Exchange of Directors between independent and autonomous controlling Boards.

Where the enterprises which control the combination are independent as financial entities, administrative contact is sometimes made through the election to each board of a director from the other company. The Directors so appointed have the twofold duty, of being able to keep the interests of their original company before the Board, and also of bringing back reports of meetings, and so keeping their original Directors in touch with new policies as they are adopted by the other member of the combination.

b. Relationships between the administration of a controlling company and its constituent units.

Where there is a financial connection between two companies in the sense of one holding a substantial interest in the other, some of the ways in which the parent company may keep some check over the administration, are as follows:-

1. By the representation of the controlling board on the boards of the constituent units.

As in the case of the exchange of Directors between independent companies, a Director is appointed to keep the parent company in touch with the administrative proceedings of the controlled company. The choice of an executive to fill the post varies, some companies having a special officer or Director who represents them on the boards of all related companies, in other cases it may be the Director or executive responsible in the parent company for the activities in which the constituent unit is specially concerned. In the case where the controlling company do not have complete ownership, and where important outside interests are represented on the Board of the associated company which may conflict with the interests of the controlling company, the number of Directors appointed by the controlling company is usually in direct proportion to the degree of stock ownership, so that if questions are brought to a vote, the full force of the company's control may be represented.

11. Representation of related Boards on Controlling Board.

Sometimes the opposite course is pursued, and Directors of the subsidiary companies are elected to the board of the parent company, so that they may have a share in framing the main policies of the combination. In the case of important foreign related companies the position of Director is sometimes given to the head of the company as a more or less honorary distinction, since in practice there is little chance of his being able to attend meetings. This method is however also used to gain the benefits of the advice of members of the boards of merged companies, and to enable them to keep in touch with the discussions and decisions of the parent company. Again, the exchange may be in both directions, but in all cases the details are determined to a great extent by the importance of the spheres of control of the administrative boards involved.

111. Written Reports.

There may be no mutual personnel on the boards of the companies which make up the combination, but contact may be maintained by the exchange of minutes of meetings, and of reports of company policies and results.

c. Establishment of a unified controlling Board.

Finally come those cases where, instead of arrangements being made to keep the various administrative boards in touch with one another control of the policies of the combination is centralized as far as possible in a single board.

1. Degree.

The degree to which it is possible to centralise administrative control of the combination necessarily varies with technical considerations. In some cases, as for example where problems of planning are simplified by production being highly standardised and distribution is in bulk sales to other producers, administrative problems are few. It may then be possible to centralise policy control completely and leave to constituent units only the actual supervision of the carrying out of these policies. In other cases while there may still be only one administrative board, in practice many administrative decisions may be left to single executives in charge of special functions or of particular localities, or to specialized committees.

11. Method.

The method of establishing a central administration may be either by using an existing Board, or by creating a new one which usually contains representatives of the chief members of the Boards of the combined companies. In some instances, where company law makes necessary the formal existence of an administrative board for each unit within the combination, it is often found that only one of these is performing any real administrative functions, the work of the remainder as Boards being limited to the formalities necessary to comply with legislation.

3. Production and Distribution.

At the time of the formation of a combination, and during the subsequent period when its organization is being developed, the question as to the advisability of effecting some degree of coordination in each of the main operating functions has to be considered. For each function, a complex of differing technical and psychological problems determines this. Given, however, that some economic advantages prompt the promoters of the combination to aim at coordination of some of these functions, this may be effected either (a) by the creation of a new functional unit; (b) by the establishment of relationships between existing functional units, or (c) by the centralization of the

function, and the elimination of surplus operating units.

a. Creation of a new functional unit.

i. Secretarial.

First there is the case where a new unit is created to carry out the purposes of the combination. If the form taken by the combination is simply that of periodic conferences between executives, or of the systematic exchange of information, this unit may simply be a secretarial office, to facilitate these services.

ii. Research.

Still without effecting any change in the organization of the constituent units, the central functional unit may perform activities of a research nature only, such as the collection of information, investigation of special problems, study of general business trends, and so forth.

iii. Coordinative.

The central unit may have the function of coordinating the activities of other units engaged in the same type of activity, of preventing competition or overlapping of activities, and standardising methods and materials.

iv. Executive.

Finally, the central unit may itself perform executive functions, as in the case where, without the elimination of the purchasing departments of the constituent units, a central office is set up, to place contracts for certain commodities which are needed by several of these units, and which can be purchased more cheaply on a large scale. Another common instance is where 'institutional' advertising (of the combination as opposed to advertising of particular units or commodities) or general trade advertising, is carried out centrally, while the existing departments still carry out the same sectional advertising as before.

b. Establishment of relationships between existing functional units.

i. Exchange of information.

Connections may be established between the functional units of a combination through the exchange of information by correspondence. In the distribution field such information as to the sales totals, success of special types of sales, or of advertising campaigns, is often given; in the production function, details of costs, prices quoted for materials, methods and secret processes.

ii. Discussion of common problems.

Arrangements may be made for periodical meetings of executives engaged in the same type of activity, for discussion and free exchange of information. The range of this activity varies from the occasional 'get together' meeting to encourage a friendly spirit, to the committee with regular and frequent meetings to discuss special technical problems, such as the working of a new machine in some factory which is experimenting with it, and the possibility of introducing it throughout the combination.

iii. One unit becomes advisory to others.

In some cases the central functional unit is given certain powers over the others. These may include the power to issue instructions as to standard methods to be used, or sometimes the central unit does a certain amount of research and investigation into various functional problems,

and merely issues the results of these investigations as recommendations which the constituent units can adopt or not, as they will.

c. Centralization of certain functions and elimination of surplus units.

Finally, in many combinations it is found possible to economise overhead costs through the elimination of existing departments and staffs, and the centralization of some functions into single central departments, e.g. all distribution is put under the direction of one central staff, and the units which previously arranged for the sales of the products of each of the independent factories are given up. This method enables the possible advantages of combination to be effected in any particular function, but it is not always advisable for psychological and other reasons to make such sweeping changes in the organization of the respective combining units, as it necessitates.

V. THE NATURE OF THE PROBLEMS INVOLVED.

The last two sections will have shown that that business form which we have called the 'combination' appears in many different rôles on the economic stage. It is found in many countries, created for purposes which vary from the institution of joint research to the control of the entire market for some product, by persons who range from governments to the owners of small independent enterprises. It assumes many different legal forms, and makes use of very various methods of administration and management in carrying out its objects.

Yet in spite of these divergences, there are some problems which are common not perhaps to all, but to very many combinations, and which therefore are of interest for comparative purposes. In investigating the practical solutions which have been attempted to such problems, it is best to consider them in relation to their context, that is, to the total organization situation in which they appear. This will be attempted in the studies of particular combinations which it is hoped will follow this report; here it is only possible to suggest what is the nature of some of the more obvious and more general of such problems.

The fundamental characteristic of the combination, which marks its difference from other forms of business enterprise, and which is the basis of its peculiar organization problems, is, of course, that it involves some degree of central organization of a number of separate operating units. The major problems of administration and management are concerned with the establishment and maintenance of the correct organization relationships between the constituent units and between these units and the central body. Such questions, which are both of a technical and psychological nature, present difficulties for which a permanent and satisfactory solution has not yet been reached by many of the existing combinations.

A. THE PROBLEM OF CENTRALIZATION.

Among the most common of the organization problems which are found is that of the degree of centralization of control which the central body should maintain over the constituent units. This problem is seen most clearly where there are no legal or financial factors preventing complete centralization if it is desired. The problem is really twofold, first as to the advisability of centralizing the administration, or the control of policies; and second, as to the centralization of the management of each of the chief functions. These do not necessarily go together, and, indeed, it is sometimes found that in cases where there is the highest degree of central control of policies the actual carrying out of such policies is entirely decentralized.

1. Of administration.

Some of the chief methods of coordinating administrative policy, through the exchange of directors, or the establishment of a central board, have already

been suggested. Naturally, where this is possible legally, there is a tendency for a fairly close central control of policies, though this may sometimes originate rather with a single, or with a small group of executives than with the board which theoretically has the administrative power. Such centralized control is facilitated by modern improvements in communications, such as the use of the telegraph and long distance telephone in business, and by improvements in management methods such as standardization of accounting and costing forms, and by the introduction of control through budget forecasts.

A further reason for the centralization of administration is the fact that in a large combination the combined resources often enable the establishment of certain special functions which are really aids to the administration, for example, a legal or an economic and statistical research department; and if such activities existed before they are often centralized at the time of combination. With such technical advice available, and with the information gathered from all parts of the combination, the central board is better able to frame far-sighted policies than are the local executives. On the other hand, however, some combinations aim at decentralising administrative control as far as possible, with the object of preventing the executives in charge of the various units from losing their initiative and responsibility for their particular section of operations. The central administration must determine policies which affect the combination as a whole, such as the initiation of corporate activities like joint advertising or joint purchasing, but there are many types of policies, such as the adoption of a new line of products by one unit, or the general lines of a sales campaign, or the introduction of new methods of wage payment, which may either be decided centrally or not. In some cases the criterion adopted is a financial one, as where policies involving new expenditure over and above a certain fixed amount have to be referred to a central body. In the case of combinations where the legal ownership rests with the constituent units, the problem of the centralization of administration arises just the same, only in this case it is a question of the delegation of powers to instead of away from the central body.

2. Of Management.

The question as to whether to centralise the actual operation of the various functions of the business is equally important to the success of the combination. In the case of each function it has to be determined whether the constituent units shall be left free to manage them according to their own methods, and subject only to whatever central policies may have been determined; or whether certain central departments shall be specialized as advisory to the others, and with powers to coordinate their activities; or again whether the function shall be concentrated in one central department, and the other departments eliminated. Such problems, in particular cases, certainly depend on personal considerations. If an executive has made a success of a sales campaign through personal contacts it might be a disastrous mistake to dictate a new sales policy from the central office even though technically it appeared advantageous. There are always special local conditions which make centralization more difficult than would appear from purely theoretical considerations. In spite of these special factors, perhaps the determining factor in deciding the economic advantages of centralization are the technical qualities demanded by each function in relation to the activities of the particular business in question. The experience of some combinations which have tried to centralize certain functions and subsequently decentralised them again, points to the proposition that there is a certain stage beyond which centralization of any particular function diminishes efficiency. This stage where the centralization of too many units has resulted in increasing the size and complexity of the central unit till it becomes inefficient, is difficult to define, although it is easily recognisable in the increase of red tape in an organization, the overworking of executives, and the difficulty of getting quick action at the local branches in matters which have to be referred to the central office. The stage probably differs as between different functions.

Some of the various factors, which, in relation to the technique of each function, help to determine whether it shall be centralized or not, are:-

- a. The degree of technical knowledge required, for example, the legal function is more often centralized than the production function.
- b. How far personal contacts are involved either with consumers or workers, since all such relationships make methods more difficult to standardize.
- c. And finally whether it is important for bargaining purposes for the combination to be able to appear as a unit, as frequently is the case in the purchasing function.

This question of the most economic size of unit which each function should achieve through growth or through combination with other corresponding functions is of great importance from the point of view of finding out the best theoretical form of organization for any business unit. The experience of combinations in this direction can throw some light on it, though as yet no accurate comparisons can be attempted owing to the lack of any exact units of measurement.

B. COMMITTEES.

There are certain special functions for which committees or conferences can be used in the organization of the combination which would not be so handled in the case of the unit business. In many cases the meeting of executives through some form of controlling or coordinating committee is an important method of unifying the interests of a group of companies. In the first place, there is the case where the committee is the combination, that is to say either the combination was formed with the object of getting executives together to discuss mutual problems or to carry out some definite policy, such as to fix prices; or where some central machinery is set up, such as a purchasing association, its policies may be determined by periodical meetings of the representatives of the participating enterprises.

Committees are sometimes used as a means of obtaining the cooperation of the executives of the constituent units in the determination of policies. Examples are found, after the establishment of a combination, of the co-optation of executives of the subsidiaries not only on to the main controlling board, but also on to committees responsible for framing policies and coordinating the activities of particular functions, as for example the fairly common production or operating committee which deals with production problems. Similarly, committees dealing either with local or with functional affairs, are found in the local branches of a combination. Minutes of the discussions of such committees are sometimes sent to a central office official, or perhaps a travelling representative takes his place on the committee with the object of keeping headquarters in touch with local affairs and with local executives.

An interesting use of committees was found in one large and scattered combination in the United States, where they were adopted as a means for bringing about cooperative action on the part of executives engaged in similar functions at the constituent units. This corporation, which had a tradition of rivalry and lack of cooperation on the part of the various operating units, and where the central board followed a policy of decentralization, for a long time remained for practical purposes, a group of almost independent units. To bring about some of the advantages of cooperative action, the central office set up various functional committees to which the constituent units were invited to send representatives. Primarily for the exchange of information, and the discussion of various technical problems, these committees, the chief of which were concerned with sales, general purchasing, technical matters and the problem of the works manager, gradually assumed more powers, until, finally, various central office departments were set up to carry out certain activities which had arisen out of their decisions. These departments, which deal

with such questions as the negotiations of general purchase contracts, joint marketing research, and with special problems of standardization and classification, are kept under the permanent supervision of the Committee. This is an example of how the committee method can be used as a means of building up cooperative activities in a particularly diverse combination. The psychological advantage of such a method is that, unlike the forcible introduction of cooperative activities by the chief executive or central board, it does not detract from the responsibility of executives in charge of constituent units, or in any way limit their initiative.

C. THE TYPE OF ORGANIZATION.

A further factor which has an important effect in determining the success with which a combination operates is the type of organization adopted. On what principle shall the responsibility for the various activities of the business be divided among the personnel? There are three ways in which one activity differs from another in the combination:

1. There is the difference of function, for example between the processes of producing or of selling the product;
2. There are differences in the product handled, as where both activities are of a distributive nature, but one is the process of selling explosives, and the other of dyestuffs;
3. There is the difference of place, both being concerned with the distribution of dyestuffs, but one being in the United States, and the other in Germany.

Corresponding with these three distinctions, there are three main types of organization, the functional type, the commodity type, and the territorial type. In the first, the lines of function cut right across the lines of product and territory, the central selling department having supervision over the sales of all lines undertaken by the company in whatever part of the world they are distributed, and other functions being correspondingly specialized. This form of organization tends to be highly centralized in its nature, most real control and planning of work being done from the central office, and where activities are decentralized they are fully reported back to the central department. Most common perhaps among the smaller and simpler types of combination, functional organizations are still found in some of the largest and most complex types. They have the advantage of the specialization of knowledge and experience on the functional problems, and enable a closer touch to be kept with all parts of the organizations. When a new unit is added to the business each function within it has the benefit of a great deal of collected experience in dealing with similar problems. The difficulties seem to include a tendency to the overcrowding of work in the central departments. To bring such an organization into being involves a fairly radical reorganization of the companies which have entered into the combination.

In the commodity type of organization the grouping of responsibilities is round all the processes connected with the producing and selling of a commodity or group of commodities, instead of on functional lines. Both this, and the territorial type where control is according to the area in which operations are being carried out, lend themselves to a more decentralized organization. They are sometimes grouped together, and known as the 'federal' type. The constituent units often maintain almost in their entirety their pre-existing organizations, and have a very great degree of autonomy, while the central office exists for coordination, the determination of general policies and for research and advice on particular problems affecting the combination as a whole. Even in such combinations, however, certain central headquarter departments are sometimes set up, either as advisory to the local units, or to take over the actual operation of certain functions. One advantage of this form is that it is easier to allocate responsibility for a particular section of

operations and hence to measure and reward special efficiency on the part of executives.

The particular circumstances of each combination, the type of relation between the products, the history of the way in which it has been formed, the intelligence of the executives, the existing form of organization of the combining units, and a hundred other factors, all contribute to making the organization problems of any particular combination unique. Only when all these factors have been taken into consideration can it be decided in each case what is the best form of organization, and how far it is advisable to bring it into operation immediately or gradually.

D. PROBLEMS OF PERSONNEL MANAGEMENT.

1. Executive Incentives.

One of the many criticisms which have been levelled at the large combination as a system of organization is that it checks initiative, and that the incentive to individual effort is far less for the salary earning executive than for the owner of the small business whose own prosperity is entirely bound up with its success. To provide the requisite incentives to executive efficiency presents a real problem within the combination, and it is one which has received considerable attention. A number of schemes have been started whereby the executives are given some share in the profits of the company in addition to their normal incentives of salary and a chance of promotion. In some schemes a share in the total profits of the combination is divided among the executives in proportion to their salary; in other cases according to what is believed to be their individual merits, this being determined in some cases by the controlling body, in others by the chief executive. The bonuses are sometimes given in cash, sometimes in the form of shares in the company. In others the reward is according to the success of the particular department or section of operations of which the executive is in charge. Such systems are easiest of application under a decentralized organization, and are common in chain stores and the like. Under any method it is difficult to secure that the basis is equitable, since the success of any section of activities is usually to some extent dependent on the rest, and there may be other factors outside the control of the executives in charge. Further, under the system of rewarding departments according to their results, such questions arise as to whether some successful innovation is really the work of the research department which suggested it, or the executive department which carried it into effect.

2. Promotion and Training of Executives.

The problem of obtaining the maximum efficiency from the personnel is bound up with the further questions of the training and promotion of executives, which in themselves are a form of incentive - in the case of promotion, perhaps the most powerful single incentive available to the administrator. Both subjects are particularly important in the combination because of the lack of personal contact between the chief executives and the rank and file, in the large organization. Further, the difficulty of finding the right type of executive to fill the highest posts in a combination, makes it necessary to give special attention to the executive material which is available. In some combinations there are formal promotion systems whereby the central office is kept in touch with all promotion throughout the concern. To take one instance, in a large and scattered combination a central personnel department keeps records of all the executive personnel. Annual ratings are made by the department heads

For a study of some of the chief schemes in operation in the United States and elsewhere, see "Managerial Profit Sharing", C. Canby Balderston, John Wiley & Sons, Inc., New York, 1928.

of the executives under their supervision, and these are filed at the central office in both functional and local indexes. Such records include the details of each man's career, and an opinion on his abilities and as to whether he has reached the stage for promotion. All recommendations for increase in salary or for promotion have to be passed through the central office, who are thus in a position to arrange for promotions from one part of the combination to another. Special note is made of men who have been promoted young to a comparatively high post, since if they seem of a type likely to rise to the highest positions, they are given further special opportunities for advancement, and for gaining knowledge of different sections of the company's business. Such formal systems are rare, and in many cases promotion is left almost entirely to the department or section head, there being little transference from one part of the combination to another, except perhaps in the case of very specialized jobs. Or perhaps an executive at the central office pays frequent visits to the localities and keeps some sort of informal supervision over the personnel and over the question of promotions. The importance to the long run success of combination of having some satisfactory system can, however, scarcely be over-emphasized.

Some attention has also been given by combinations to the equally important question of the selection and training of executives, through the encouragement of course in general business problems and in special technical questions, through discussion groups, lectures and the like, and also through the selection of certain young executives for a practical course of training in the various departments and shops.

3. Relations with labour.

Two problems particularly may be mentioned in connection with the combination's relations with its employees. One, which arises especially in those industries where there has been over-production and where combination has resulted in the reorganization of the industry, and the closing of surplus factories, is the question of what to do with the labour which has been displaced. This problem, though it is frequently ignored by combinations, yet has somehow to be solved. Some combinations have attempted to solve it by the development of new factories or new lines of product to which the surplus labour can be transferred.

The other question is as to how far the combination shall adopt central labour policies, as has been done, partly for advertising reasons, in some of the big combinations. How far should the central executives, if they have decided that a five-day week, or a standard minimum rate of wages make for efficiency, standardise such policies throughout the various sections of their operations, how far should they leave local executives to determine labour policies in accordance with the prevailing local conditions? This question has proved of some difficulty to various combinations, where there are some with advanced labour policies, and where combination has been effected with firms having less enlightened methods. To enforce the policies worked out in one set of circumstances to different conditions is often impossible; but not to do so may be to lay the executives open to the charge of inconsistency, if not hypocrisy.

E. ACCOUNTING.

One of the primary problems after the establishment of a combination is the introduction of a uniform accounting system. This is important both for the facilitation of the final accounting of the combination as a whole, and also for the information of executives. It involves difficulties not only in the technical problems of deciding the best methods, but also through the cost of changing over to a new system and the difficulty of persuading executives to adopt it. In some large combinations a central body of auditors has been established whose job is to audit the accounts of the various subsidiaries, and who can thus see that the standard methods are carried out.

The advantages of uniform methods of cost accounting within an industry are increasingly recognised. They facilitate the elimination of unnecessary wastes discovered by the comparison of figures. Price fixing can be controlled more accurately. In many cases attempts are being made to establish a uniform system in combinations between firms engaged in the same lines of production. The working out of such systems in each case is a highly technical accounting problem. It is often also difficult to persuade executives who have different systems or no system at all, to adopt the new methods. An added accounting problem which occurs sometimes within the combination is where a number of operating units are partially controlled and have certain services provided by a central office, as to the method by which the expenses of this office shall be allocated; whether on a percentage basis, or according to services rendered, or whether they shall simply be treated as a charge on the total profits of the combination.

VI. CONCLUSION.

Each of these problems which have been so briefly mentioned, is in itself a vast field for scientific investigation. There is sufficient similarity between the problems of many combinations for the knowledge of the results of an attempted solution by one combination to be of value to others. The accumulation of information with regard to the administrative and management methods of combinations must necessarily be a slow and difficult process, made possible only by the gradual emergence of industry from the secrecy complex. The importance of such information is being increasingly recognised by such bodies as Trade Associations, Chambers of Commerce, Business Research schools and the like. But while there is increasing discussion and comparison of their problems among business men, there is still little written information available, especially where the point of view of international comparisons of system is considered - an aspect which is becoming increasingly important with the increase of international operation by the combinations themselves. The gradual collection and comparison of a great deal of information as to the administration and management of actual combinations is necessary before any scientific principles can be established. And while the importance of size from a bargaining point of view may secure the success of combinations over a long period, ultimately they will only survive if they prove to be more efficient intrinsically as systems of administration for business under modern conditions than the unit enterprise. Further, just as a political constitution can only survive if it is capable of adaptation in the face of constantly changing and increasing problems, so the combination administration can only survive as a system if it is able to adapt its organization to meet the problems created by the increasing size and complexity of its operations.

In general the histories of combinations which have been established over a long period suggest that the problem of centralization versus decentralization is the most important single administrative question with which they have to deal. Only in exceptional cases has evidence been discovered either of an adequate appreciation of its importance or of any stable policy founded on principle rather than on the accident of the temperament of the ruling executive of the moment. The early stages of a number of such undertakings exhibit an almost rhythmical alternation between the two conceptions. Generally speaking one of the sharply-contrasted policies is pursued in the first instance. On the one hand those responsible for the combination feel that they have an insufficient knowledge of the problems of the merged companies or, the combination having been formed, purely for financial or market reasons, they are not primarily concerned with administrative economies. In such cases there is a tendency to leave every aspect of control, save the financial, to the constituent units who continue to operate with a substantial measure of independence largely on their old lines. It is only gradually, and at a later stage, that it is realised that advantages can be achieved by cooperative action. Some central control and eventually a more centralized system, are built up, often not without considerable internal friction. But the change in other cases comes suddenly, as the result of a change in the dominating personalities.

In the opposite, and more frequent, case, the constituent companies are completely reorganized and a highly centralized control adopted immediately. At the moment of coming together the new controlling body is optimistic as to the possibilities opened up by combination and the economies which can be obtained. This optimism expresses itself in immediate arrangements for a high degree of centralization of many functions, arrangements which pay little attention to the values inherent in unfettered initiative or the force of habit and custom as stabilizing elements in human nature. At the end of a longer or shorter period the results of such a policy are expressed in a swollen and cumbersome headquarters vainly endeavouring to promote enthusiasm and elasticity among the executives of a multiplicity of associated enterprises, executives who, by force of circumstances, have become reporters rather than originators.

The profit and loss account points the way to a reaction, which is not invariably free from elements of panic. Decentralization of responsibility becomes the slogan of the higher officials. The headquarters departments are hastily reduced or even summarily disbanded. The best managers available are sent to the branches with a free hand to cut through the red tape, and to turn losses into profits as they can. At the end of a further period the combination awakes to the fact that it is little more than an assembly of individual businesses, lacking most of the advantages of ownership and personal interest, united only by a common financial control. The anticipated economies of combination have, in many instances, disappeared completely.

At this stage deliberate study of the special problems of combination administration is usually undertaken. But it comes only after heavy financial losses and suffering to individuals which might both have been avoided. The absence of determined and tested principles makes itself felt. The undertaking embarks on a course of isolated experiment almost invariably dominated by an attempt to over-simplify the problem. That is to say it is regarded as a question of more or less centralization of control for the concern as a whole, not of disentangling the various functions and activities and determining for each one severally and with reference to the special circumstances of each constituent unit what are the most appropriate degrees of delegation and mechanisms of coordination.

While this preliminary study is admittedly incomplete, sufficient evidence has been obtained to suggest that the experience recorded is the rule rather than the exception. Moreover it is an experience which is likely to be repeated in the case of the majority of new combinations, unless more determined efforts are undertaken to isolate and to examine the special administrative problems involved and to create widespread recognition of their importance to the business life of the community. The cost of the necessary research would of course be encountered for lack of clearly defined and accepted principles. And these considerations apply with equal force to the administration of arrangements of the cartel form, as to the more unified combine form of business combination.

It is in the belief that combinations are the most important type of business structure at the present time, and that for economic and technical reasons they must inevitably increase in relative significance, that this preliminary report has been prepared by the International Management Institute. They can only achieve the fullest efficiency if they are operated according to correct principles of administration and management, based on experience. That experience is at present largely unrecorded. The practical accumulation of the facts on an ordered plan is the sole means of providing the material on which alone inductive reasoning can operate. Unfortunately the Institute's attempts to extend this enquiry into individual cases have had to be largely curtailed at the moment for lack of resources. Until, however, such an enquiry has been arranged on an adequate scale the existing uncertainty as to policy and principle is likely to continue. The cost to business leaders, to shareholders, to workers, and to the community is likely to prove so large as to be incalculable.

Note: The Bibliography of Combination is a very large one and for reasons of economy no bibliographical list has been included in the text of this report. A cyclostyled copy of the bibliography compiled by the Institute in the course of the enquiry is however available and will be supplied on request to Members of the Institute. An alphabetical list of the definitions used in the text, in English only, is also available.

From
MODERN INDUSTRIAL CONSOLIDATION

by

J. George FREDERICK,
 Frank Maurice Inc., New York, 1926.

There are definite stages, historically, in the processes of consolidation used; a definite series of devices employed to attain the ends sought;

- 1) The use of the gentlemen's agreement whereby concerted action was agreed upon and individually carried out. This primitive form of consolidation was the forerunner of a real later consolidation in such instances as the steel industry (the "Gary dinners"), United States Leather, National Cordage, National Salt, American Malting, New England Cotton Yarn, United States Shipbuilding, Glucose Sugar Refining, and other corporations. It proved inadequate, of course.
- 2) The use of the pool, which was a mechanical improvement of the gentlemen's agreement, in that it established a penalty for over-production, equal in many examples to the net profit of such overproduction. The pool is not a successful device, according to experience.
- 3) The use of a legal trust, which is now entirely passé (except in Massachusetts). It was an effort to make the device of the pool more certain in its results.
- 4) The use of a holding corporation or loose federation, taking legal title to the property of constituent companies or individuals. This device is still an active, useful device, applicable in many instances where certain objectives are desired and certain situations must be met - particularly where individual identity is desired to be left undisturbed.
- 5) The use of an active incorporated consolidation, in which the consolidated elements are thoroughly and irrevocably merged and operated with one set of officers.

Appendix I.B.

From
FACTORS IN INDUSTRIAL AND COMMERCIAL EFFICIENCY.

Part I. of a Survey of Industries by the Committee on Industry and Trade, Great Britain, 1927. H.M. Stationery Office.
p. 71.

Varieties of Organizations for Limiting Competition.

Organizations which limit competition range from mere informal understandings between competing producers or merchants, to the giant business which controls the whole output and conditions of sale of a particular commodity. Between these two extremes lie a great variety of organizations exercising economic power in very varying degrees. Some of the principal varieties may be noted:-

- 1) Informal understandings or "gentlemen's agreements" between competing producers or merchants as to prices to be charged or areas to be served. Such agreements must always have been common in local trade.
- 2) Associations for regulating prices. These involve a more formal agreement between competing producers or merchants who form an association to fix minimum prices at which they will sell.
- 3) Associations for regulating output. The simpler form of organization is for an association of competing producers to arrange during a period of depression that only a proportion of the plant of each firm shall be worked, in order that production may be curtailed and prices increased or maintained. In other cases the actual output of each producer may be fixed, and he is expected (whether subject to fine or not) not to exceed it.
- 4) Pooling associations. A common type of pooling association is that in which each member pays a small fixed sum per unit of output into a pool, which, at regular intervals, is divided up equally among the contributors after the formation of a reserve fund. Under a more elaborate form of arrangement each producer is allotted a percentage of the aggregate output of all the producers in the association, the percentage being fixed on the basis of ascertained experience in the recent past. If a producer exceeds his percentage of the total output, he pays into the pool a sum proportionate to the excess, calculated on an agreed basis; if a producer falls short of his percentage he receives from the pool a sum, calculated also on an agreed basis (though not necessarily the same basis as is applicable to excess production), proportionate to the deficiency. In some cases pooling associations also fix prices.
- 5) Associations for allocating contracts. Such associations exist in certain industries where work is allotted by tender. The association decides which firm is to receive a particular contract and it is arranged that other firms either do not tender or tender high. In some cases it is arranged that the members of the associations shall each be allotted a particular area.
- 6) The selling agency. A number of firms making the same article agree to turn over their output to a common selling agency, so as to avoid undercutting. There may be no regulation of output.
- 7) The participating cartel with selling syndicate. This form of organization was adopted in Germany in a number of industries. The essence is that competing producers agree to establish for a definite period a joint selling agency for the exclusive sale of their products, and that each producer is allotted a "participation" in the total output. Those who exceed their participation pay a fine, those who fall short of it receive an indemnity. The selling agency or syndicate is registered as a company in which the individual producers are shareholders with votes in proportion to their output. The

members fix a base price for their products covering cost of production, and sell to the syndicate at an accounting price which is usually somewhat higher. The Syndicate sells to the consumer at the highest price that it can get, adjusting its price to circumstances in different parts of the market, though it does not as a rule sell below the accounting price. A feature of some of the German Cartels - notably the Stahlwerksverband - before the war was the subsidising of the export trade, especially in years of depression.

- 8) Variations of the participating cartel with selling syndicate. In some cases there are variations of structure in the direction of the trust. The syndicate may acquire a considerable degree of independence or it may fall under the control of a particular concern or group.
- 9) Financial community of interests (Interessengemeinschaft). This is established when two or more companies agree for a period of years (sometimes as many as fifty) to pool the whole of their profits and divide them up between the companies in pre-arranged proportions. The organization remains in theory temporary and the companies retain a separate existence, each with its own management; but they may work closely together by means of joint committees. Experience shows that there is a tendency for this form of organization to give way to a more complete union.
- 10) The "voting" trust. This form of organization became prevalent at one period in the United States, until it was held by the Courts to be illegal. A number of competing companies agreed to assign the whole of their stock to a group of trustees, receiving in exchange trust certificates representing the valuation of their properties. The trustees were thus able to exercise complete control over all the businesses. This is in theory a permanent form of organization.
- 11) Exchange of shares. Two or more companies may link their fortunes together by means of an exchange of shares. The precise effect depends upon the relative sizes of the companies and the number and proportion of shares exchanged. Where one company predominates in size and purchases the whole or a majority of the shares, the other company becomes virtually a subsidiary though it may possess a voice in the management of the larger concern.
- 12) Holding companies. Another method of establishing unity is for each of a group of companies to sell its shares, or a majority of them, to another company, established for the purpose or already existing, the shareholders of the individual companies receiving in exchange shares in the holding company. The individual companies continue to exist, and to enjoy a greater or less degree of autonomy, but their general policy is controlled by the holding company in the interests of the whole group of undertakings.
- 13) Consolidations or mergers. These denote the consolidation or merging of two or more businesses into a single undertaking. The businesses taken over completely lose their separate existence. In this list the various types of organization have been placed in an ascending order leading up from the "gentlemen's agreement" between independent firms to the complete fusion of businesses in a single undertaking, and, in considering these types of organization, it is evident that a distinction may be drawn between the first eight or nine - the position of the Interessengemeinschaft, being in some respects intermediate - and the last four. The former are of the nature of temporary agreements for certain particular purposes between producers or merchants who remain independent in other respects; the latter represent permanent unions of undertakings in which the component parts may or may not retain a limited degree of autonomy. The former may be designated broadly "terminable associations" while the latter (in those cases where they exercise any considerable degree of market control) are called "trusts". It is in this sense that these terms should be read throughout the present memorandum, unless they are otherwise explained in the context.

MERGERS, CONSOLIDATIONS & AFFILIATIONS.

Appendix I.C.

by

Willard E. Hotchkiss.
Willard L. Thorp.
Dwight T. Farnham.

(General Management Series: No.92)

(American Management Association, New York, N.Y.) p.14.

In the pages which follow an attempt has been made to classify the various corporate and economic types of combinations in America and Europe.

A. CORPORATE TYPES OF COMBINATIONS.

There are three principal corporate classes of combination:

- I. Those based upon the exchange or purchase of stocks, such as holding companies, consolidations, and mergers.
- II. Those based upon contractual relations, such as cartels, trade associations, etc.
- III. Those based upon common interest, such as that occasioned by stockholders or banking interests common to two or more companies, or by group consciousness which leads a class, a community or a country to cooperate for their own interest, against other groups.

Combinations also exist which contain all three of the elements described.

Class I. While the terms "holding company", "consolidation" and "merger" are loosely used to describe almost any sort of industrial, financial or commercial combination involving the purchase or exchange of securities, each type has a distinct technical significance from a legal, financial and accounting standpoint. Although lines of demarcation are not always carefully drawn and although one combination may include elements of one or more types, nevertheless there is a distinct difference from a corporate standpoint, as will be noted from the paragraphs which follow:

Holding Company. The holding company, sometimes incorrectly referred to as a "Trust", usually acquires its holdings in other companies by purchasing their stock. In many cases it does not own all the stock of its subsidiaries, but in most cases these subsidiaries retain their original identities.

Consolidation. The consolidation is usually effected by creating a new company which buys out the business of the old ones, taking over their assets and assuming their liabilities.

Merger. The merger is usually effected by one company purchasing, on a basis of net worth and earning power, one or more other companies, which thereupon cease to exist as legal entities.

In many of these cases the former stockholders may be compensated in cash, in stock, or in a combination of both, and may or may not become identified with the new management. When compensation takes the form of cash, it is quite usual to secure this cash by means of a public issue of securities which are distributed by Investment Bankers. Compensation is frequently graduated, cash, bonds or preference stock being paid for liquid assets, preference stock

for fixed assets and common stock for goodwill based upon earning power.

Class II. Cartels. Other types of combinations based principally upon contractual relations of a more readily terminable nature may be grouped under the general heading of cartels. While this term is used in Germany to denote "a voluntary combination of business enterprises engaged in the same line of business, and each retaining its independence, for the purpose of establishing monopolistic control of the market", it may equally well apply to a large variety of corporate, contractual and general associations of various sorts in this country, if the statement of purpose is modified to conform with present legal requirements.

In Germany, where organization is most complete, cartels fall into two general classes from a legal standpoint, the Trade Association, without legal entity, from which any member may withdraw at any time, differing little from the "gentlemen's agreement" and the Registered Association, possessing legal responsibility and entering into definite contractual relations with its members covering a stated period. These two classes accomplish their objectives by various means, and may be divided into general types as follows:-

1. Price Cartels - which fix and regulate prices.
2. Trade Condition Cartels - which fix terms and trade conditions.
3. Quota Cartels - which limit and regulate the output of an industry to prevent over-production and ruinous price competition, usually by the apportionment of orders upon an agreed basis. This type very often distributes its products through a central sales agency and is similar to the old American "blind pool".
4. Territory Cartels - which apportion exclusive territories.
5. Patent Cartels - which pool and share patent rights. This type constitutes an important part of the international cartels.
6. Standardization Cartels - which simplify and standardize their products.
7. Purchasing Cartels - which establish central purchase agencies.

Class III. - Common Interest. The community of interest type of combination, strictly speaking, seldom possesses a corporate entity except when an incorporated community acts in its own interest against another community. The term is used here rather to include all classes of combinations not covered by Classes I. and II, which, although often loosely organized, nevertheless possess considerable power. Before they were declared illegal in this country, interlocking directorates would have come within this class. This method of combination is very prevalent abroad.

B. ECONOMIC TYPES OF COMBINATIONS.

The principal economic types of combination, classified on a basis of their economic reason for existence, are defined in the following paragraphs:-

1. Horizontal. The horizontal combination, which is the commonest type, in its simplest form, is a combination of industries manufacturing a single product - as matches or automobiles.
2. Vertical. The vertical combination is a combination of a number of industries of such a sort and in such a manner that the finished product of one becomes the raw material of the next. The complete vertical combination begins with the raw material as supplied by nature and ends by placing the finished product in the hands of the ultimate consumer.

- vi. 3. Allied Industry. The allied industry combination is a combination of industries manufacturing articles of a similar nature, or articles which can be sold to the same market.
4. Chain. The chain type of combination is a combination of business serving the public in some capacity, usually in different localities, which can secure certain advantages by combination.
5. Local. The local type of combination is a combination of industries located in a single community, and formed usually for the purpose of strengthening their strategic position.
6. Seasonal. The seasonal type of combination is a combination of industries whose peak loads of business occur during different seasons of the year for the purpose of distributing the load throughout the year in the interest of more efficient operation.
7. Cartel. This type of combination includes any form of combination formed for mutual benefit on a contractual basis.
8. Common Interest. This type of combination, which is the least organized, per se, of any of the types enumerated, may assume almost any form for the purpose of improving conditions in which the parties involved are interested.
9. Mixed. This type consists of combinations embodying features of more than one of the types previously enumerated. Furthermore, it should be observed that one or more of the various types mentioned may take place on the manufacturing level, on the wholesale level, or on the retail level of production and distribution, or on a number of such levels. This makes it difficult to empirically classify existing combinations and to demonstrate statistically the exact prevalence of each type.

From
MONOPOLIES, CARTELS AND TRUSTS IN BRITISH INDUSTRY.

vii.

Appendix I.D.

By

Hermann Levy, Ph.D.
Macmillan & Co., Ltd., London, 1927. p.278.

"All the types of monopolist organization known to the experience of other countries are to be found among the chief English monopolies. We see every stage of monopolization, from loose understandings terminable at any moment or the more definite agreement for a fixed period, to the yet closer unions of the syndicate with a common place of sale and common regulation of production and the amalgamation into one undertaking of all the firms in favour of monopoly; that undertaking in its turn perhaps forming new syndicates and cartels with important outsiders. Each variety is distinguished from its predecessor in order of completeness by the greater number of functions formerly exercised by separate firms which it usurps and subjects to a common monopolist control, until, finally, in the "horizontal" combination, every single function is transferred to the trust".

Appendix I.E.

From
BUSINESS ORGANIZATION AND COMBINATION.

By

Lewis H. Haney, Ph.D.
Publishers: The Macmillan Co., New York, 1913.
p.131.

I. Simple Combinations:

1. Association (direct combination of natural persons as in partnerships).

II. Compound Combinations:

1. Association (the loosest agreements directly between individual members or different associations: trade "association", some simple "agreements", etc.).
2. Federation (combination of organizations which remain separate and retain considerable autonomy: most simple "agreements" and pools).
3. Consolidation (combination of organizations in which, while members may remain nominally separate, direction of business is fused).
 - a) Partial Consolidation:
 - (1) Securities holding (direction of business organizations consolidated through stock ownership, with separate existence formally maintained).
 - b) Complete Consolidations:
 - (1) Merger (complete consolidation, members of one business organization absorbed by another).
 - (2) Amalgamation (complete consolidation, members of two or more organizations coalesce to form a new organization).

From
CAPITALIST COMBINES.

By

G. M. Colman,
Longmans, Green & Co. Ltd., 1927.
p.2.

ix.

Appendix I.F.

The word "combination", or "combine", will be used here in a general sense, to mean any degree of sacrifice of independence by companies, private firms, etc., for the sake of a common advantage to themselves, in their production, or their buying and selling. It will therefore cover all such cooperation between capitalists, from the most informal agreement to complete amalgamation. Within this general group two main forms of combinations must be distinguished, and these will be called "associations" and "trusts".

Associations again include several different types, but the common element is that these are all federations, that is, that they consist of a number of firms which agree to act together for certain purposes, while remaining independent financially, and, in general, in the internal conduct of their businesses. There are very many of these associations in this country and on the continent, and they are no doubt of great importance in relation to the prices of goods. The simplest type is the informal understanding, or "gentlemen's agreement", between firms, as to the areas in which goods are to be sold, or the prices to be charged.

Many more formal and permanent associations exist, for the purpose of fixing output or prices. An example is the United Kingdom Soap Manufacturers' Association, which in 1920 controlled 80 per cent. of the total output of soap in this country. It was stated by a Government Committee of Enquiry in 1921 that "there is no competition in price (of soap), and the prices fixed by the Association become the standard prices throughout the trade". This body was then, and is to-day, practically controlled in turn by the Lever Bros. Combine, the output of which is about 90 per cent. of the total output of the members. Some of these groups have a pooling arrangement, under which the total output is fixed, and each firm allotted a percentage; if the percentage is exceeded, a fine is paid into the pool, and if a firm falls short of its percentage, compensation is received from the pool. One of the most important of the pooling associations is the National Light Castings Association, which since 1912 has controlled about 95 per cent. of the manufacture of castings used in house-fitting. Another method of price control, adopted for instance by the Cast Iron Pipe Association, is the allocation of contracts; the Association fixes minimum prices and decides which firm is to receive a given contract, and the other firms either do not tender or they give a higher estimate.

The most elaborate form of federation is the sundicate,* which flourishes chiefly in Germany. The firms entering into the agreement establish a joint selling agency or syndicate, which fixes the total output, allots a certain proportion to each firm, and undertakes all sales, adjusting prices to conditions in the market. As in the pooling association, firms exceeding their percentage pay a fine, and those which produce less receive compensation.

The second main form of combination, the trust, also includes a number of different types, as many perhaps as the group which I have called Associations, and there is here the added difficulty of financial complications. The trust is distinguished from the association by the fact that, while the firms entering an association remain financially independent, a trust means financial unification, and

* This is often known as a "cartel", but as the term cartel is used in Germany to denote all kinds of association, it is better to keep to syndicate for this particular type.

x.

so, in effect, complete loss of independence. A common type of amalgamation is that known as the holding company. If, for example, three companies, A. B. and C, agree to amalgamate, and to adopt this method, a new company, X, is formed, and the shares of this new company are exchanged for the shares of companies A. B. and C. The former shareholders of companies A. B. and C. now hold the shares of Company X, thus controlling its operations; while company X. holds the shares of companies A. B. and C, in turn controlling their operations. The result of this process is that the capital of three previously independent companies is owned, in effect, by one body of shareholders, and general policy is thus brought under a central control.

Another type of amalgamation is that which may be called the "merger" or "consolidation". Here no new company is created, but one firm buys up the whole of the capital of another, so acquiring complete control over it. In some cases firms thus bought up continue to exist legally as companies, though their capital is owned by the purchaser; in others they lose their legal identity, and are entirely absorbed. In many cases they continue to trade under their own names, the fact of amalgamation thus often being concealed.

There are other ways in which, without going so far as amalgamation, financial connections may be formed between firms, and so the pursuit of common interests made easier. One firm may buy shares in another, though not enough to give it control; or two firms may exchange shares and directors.

KARTELLE, KONZERNE UND TRUSTS

von

Prof. Robert LIEFMANN,

Verlag von Ernst Heinrich Moritz, Stuttgart,
1930.

Liefmann behandelt die Kartelle als eine Untergruppe jener Kartelle von Vereinigungen, die er wirtschaftliche Vereinigungen oder Berufsvereinigungen nennt.

Die Berufsvereinigungen umfassen folgende drei Gruppen:

1. Die wirtschaftlichen Vereine oder Berufsvereine. Sie sind die losesten Vereinigungen von Wirtschaftssubjekten. Sie bezwecken nur die gemeinsame Vertretung der wirtschaftlichen Interessen ihrer Mitglieder, sei es andern Wirtschaftssubjekten, sei es der Regierung gegenüber, greifen aber nicht in die wirtschaftliche Tätigkeit ihrer Mitglieder ein. Zu ihnen gehören die sogenannten Fachvereine, in denen sich die Angehörigen desselben Berufes oder "Faches" zusammenschließen. Ueber diese erheben sich aber eine grosse Zahl allgemeiner Vereinigungen, z.B. über den einzelnen industriellen Fachvereinen der Zentralverband deutscher Industrieller, der Bund der Industriellen, über den einzelnen Fachvereinen der chemischen Industrie der Verein zur Wahrung der Interessen der chemischen Industrie, über den zahlreichen Vereinigungen der deutschen Maschinenfabriken der Verein deutscher Maschinenbauanstalten (VDMA).

2. Die wirtschaftlichen Verbände oder Berufsverbände, wenn die Mitglieder zu einer bestimmten Gestaltung ihrer wirtschaftlichen Tätigkeit im Hinblick auf den gemeinsamen Zweck veranlasst werden. Wenn es also über die blosse Vertretung der gemeinsamen Interessen in den Berufsvereinen hinaus, zu einer gegenseitigen Verpflichtung der Mitglieder auf ein bestimmtes Tun oder Unterlassen im Hinblick auf ihren gemeinsamen Zweck kommt. Die Wirtschaftsfreiheit der Mitglieder wird also in einem bestimmten Punkte beschränkt und ihre Wirtschaftstätigkeit durch gemeinsame Verabredung geregelt.

3. Die wirtschaftlichen Gesellschaften sind Vereinigungen mehrerer Wirtschaftssubjekte zu gemeinsamer wirtschaftlicher Tätigkeit. Diese Gesellschaften sind regelmässig Erwerbswirtschaften, d.h. die Mitglieder schliessen sich in ihnen zu gemeinsamer Erzielung eines Geldgewinnes zusammen. Zu den Gesellschaften gehören auch die Genossenschaften, die jedoch in sofern einen Sonderfall darstellen, als sie nicht selbst Erwerbswirtschaften sind, sondern der Förderung und Ergänzung der privaten Haus- und Erwerbswirtschaft ihrer Mitglieder zur Erzielung eines gemeinsamen Geschäftsgewinnes dienen.

From
Review of the Legal Aspects of Industrial Agreements.
League of Nations - Economic & Financial Section.

Prepared for the Economic Committee by M. Henri Desugis (France), Mr. Robert E. Olds (U.S.A.), and M. Siegfried Tschierschky (Germany) 1930, Geneva.

P.5. I. Different Types of Industrial and Commercial Combinations.

Before dealing separately with the laws of each of the countries studied, it would first seem desirable to define the different types of agreements existing at present and generally referred to by the names of cartels, trusts, corners, combines, consortiums, conferences, etc., and then to summarize the more general features of the legal, judicial and administrative rules by which they are governed.

It is only after examining and comparing the different legislations now in force in these different countries that we can know their present tendencies and discover how far these national regulations are likely to affect international combinations beyond the political frontiers.

It should first be observed that the main object of all industrial or commercial combinations is to replace individual and completely free competition by a collective organization intended to regulate and rationalize production and to influence prices with a view to their stabilization.

The means to this end are legion. The combinations of interests assume a multiplicity of forms, some of them very simple, some very complicated.

They may however be classified in two main types: the cartel and the trust. The cartel is, first of all, distinguished from the trust in that it does not necessarily constitute a legal entity with property of its own, distinct from that of its members. It is essentially a contractual agreement between individuals or companies who, without sacrificing their separate commercial or industrial existence, agree to pursue by concerted action a specific economic result. The International Steel Combine, for example, is a cartel. The same is true of the agreements on maritime freights known as conference, which are genuine international cartels concluded by the shipping companies of different countries.

In some cases, however, a cartel, for reasons of practical convenience, takes on the outward form of a company proper, with a separate legal personality, but this company is really no more than an executive instrument. In point of fact, it operates on account and for the profit of the members of the cartels. Thus, joint selling or purchasing agencies frequently assume the forms of commercial companies. At the same time, their capital is generally very small. They are, strictly speaking, real cartels operating without making large profits, and working in fact for the exclusive profit of their members.

The trust, on the other hand, is a company proper in the full juridical and commercial sense of the term. It always has its own independent existence, legally separate from that of its members. It has a capital which is its personal property and it enters into contracts with third parties on its own account. The trust essentially seeks to make profits for itself. That is the very purpose of its existence. It influences, either directly or indirectly, other undertakings in which it has financial, commercial, or industrial interests and which it keeps subordinate to itself and from which it draws dividends.

We may quote as examples the United States Steel Corporation, and in Europe, the Swedish Match Trust (Svenska Tändstick Aktiebolaget).

"TRUST AND CORPORATION PROBLEMS" by Henry R. Seager and
Charles A. Gulick Jr., Harper & Bros., New York and
London, 1929.

The term "trust" as used in this book, signifies an industrial combination, not a legal nor a natural monopoly, which seeks to escape the restraints and avoid the wastes of competition by absorbing, controlling, or forcing out of business its would-be competitors, or by acting in concert with them in fixing prices or regulating outputs. The word thus embraces all combinations in the industrial field which enjoy or seek to enjoy the advantages of monopoly except those based upon some legal privilege, like a franchise or a patent, or those which are monopolies by nature. There is difference of opinion as to the industries embraced in this last class, but it is generally agreed that it includes all the so-called public-service industries - that is, water companies, gas and electric-light companies, street-railway companies, telephone companies, and, in the national field, telegraph and railway companies. These will receive no special attention in this book.

Trusts, as broadly defined, have tempered business competition from an early period, but it is only within the last fifty years that they have assumed such proportions as to constitute a special problem. The first trust of national significance in the United States was the Standard Oil Trust, organized in 1879 and reorganized in 1882. The plan adopted by this combination of vesting control of the combined properties in a board of trustees was the circumstance which caused the term "trust" to acquire its present significance. Judicial decisions holding the trust form of organization unlawful caused it to be abandoned in the early 'nineties. The trust name, however, has remained the distinctive American designation of what in other countries are called monopolistic industrial combinations.

The following forms of trusts may be distinguished: (1) Simple Agreements; (2) Pools; (3) Trade Associations; (4) Trusts Proper; (5) Holding Companies; (6) Outright Consolidations. The last three alone are often thought of when the trust movement is mentioned. Simple agreements and pools have usually been secret in the United States and have always been transitory. Trade associations are generally free from any monopolistic purpose. Nevertheless agreements and pools are usually and trade associations are sometimes trusts, in accordance with our definition, and therefore merit attention. As is brought out in the sections which follow, the combinations that have at different periods been most in evidence in the United States have assumed forms determined not only by economic but also by legal considerations.

Of all the forms of combination, Simple Agreements are the most numerous and most varied. There is scarcely a branch of business in which they do not serve to modify somewhat the stress of unbridled competition. In retail trade it is not unusual for local dealers, for example coal and ice dealers, to agree as to prices to be charged. Such agreements may be tacit, experience having convinced the rival dealers that price-cutting was bad business policy; or formal, the result of a conference and definite pledge. As a rule such agreements are kept secret, as consumers are only too apt to regard them as inimical to their interests.

Where agreements as to prices, outputs, or territories to be covered are entered into by big business men, they are often styled "gentlemen's agreements" to emphasize the fact that strict adherence to them rests on the honour of the parties to the agreement. Gentlemen's agreements, like those implicitly resulting from the "Gary Dinners" in the steel industry, have played an important rôle in the combination movement in the United States in part because, with the law prohibiting combinations in restraint of trade and monopolies, it has been impossible to accomplish the same purpose through legally enforceable contracts.

It was largely because of the instability of simple agreements that business men who sought to lessen the severity of competition devised the more refined form of combination known as Pools. These are agreements of a more formal character which have as their essential element the combining, or "pooling" of some common factor with a view to controlling supplies and fixing or influencing prices. The common factor combined may be the output of the plants concerned (or, in the case of transportation companies, the traffic), the market to be supplied, patents essential to some stage of the process of production, or the gross or net returns from the businesses affected. Accordingly, we have as the principal forms of pools: (1) output pools; (2) market pools; (3) patent pools; and (4) earnings pools.*

As officially defined by the American Trade Association Executives, a Trade Association is "an organization of producers or distributors of a commodity or service upon a mutual basis for the purpose of promoting the business of its branch of industry or commerce and improving its service to the public". (Quoted in the U. S. Department of Commerce Report, Trade Association Activities, 1923, p.1.). Although limited usually to forms of cooperation that are free from any suspicion of monopoly, such associations have at times developed into monopolistic combinations ranging from gentlemen's agreements to outright pools. As this implies, there is no sharp logical distinction between monopolistic trade associations and these other forms. They have become such an important phase of the combination movement, however, that we have given them separate treatment in Chapter XVI.

By Trusts Proper in these pages we mean trusts after the model of the Standard Oil Combination of 1882, which is described at length in Chapter V. The vogue which this form of combination enjoyed during the 'eighties was due to the fact that it seemed a legal method of securing the advantages of the close-knit pool - control of outputs and of prices, through a unified selling organization, coupled with as complete independence of management of the different properties combined as might be deemed advisable, - after the courts had held that pooling contracts were unenforceable. The decisions of the courts in the early 'nineties, reviewed in Chapter V, deprived trust organisers of this refuge for their combinations and led to the development of the holding company.

The holding company is a corporation which combines the business and properties of other corporations through ownership of all or a controlling majority of their capital stock.....

Outright Consolidations may come about by the acquisition by one business of another, when it is said to be the result of a "merger", or by the fusing together of two or more businesses into a new business organization or new corporation, when it is said to be an "amalgamation". Outright consolidation implies that complete unity of ownership and control is secured by the merger or amalgamation and that not even the semblance of divided management or responsibility is retained.....

* This classification is less elaborate than that proposed by W. H. S. Stevens in his valuable article "A Classification of Pools and Associations Based on American Experience", American Economic Review, vol. iii. (September, 1913), pp. 545-575, but is thought to include all of the important examples which he describes.

VON

Dr. Tschierschky.

in Spaeth & Linde Verlag, Berlin.

1928.

"Kartelle sind auf Vertrag beruhende Organisationen selbständiger Unternehmer (Unternehmen) des gleichen Gewerbes zwecks willkürlicher Regelung ihres Marktes".

Dazu führt Tschierschky aus: "Alle Kartelle, gleichgültig welchen Gewerbes, können stets nur zwei Hauptmittel einer Marktbeherrschung teils einzeln, teils verbunden verwenden. Sie können 1. die Preise, 2. die Zahlungs- und sonstigen Geschäftsbedingungen regulieren, wie Spesen (Frachten, Verpackung, Muster).

Er scheidet die Kartelle nach der Art der Marktbeherrschung in

- 1) Einkaufskartelle,
- 2) Verkaufskartelle,
- 3) Kartelle besonderen Zweckcharakters.

Unter den Verkaufskartellen unterscheidet er:

- a) Konditionenkartelle, deren Zweck die Regelung der Verkaufsbedingungen ist, und zwar: Form und Inhalt des Angebotes, die Lieferungsbedingungen im engeren Sinne und die Zahlungsbedingungen. Für alle diese ist der Verzicht auf Regelung der Verkaufspreise typisch.
- b) Einfache Preiskartelle, welche neben den Verkaufs- und Zahlungsbedingungen auch die Verkaufspreise, und zwar gewöhnlich Mindestverkaufspreise, festsetzen. In neuerer Zeit macht sich jedoch die Tendenz geltend, an Stelle der Schematisierung der Preise die Kalkulationsgrundlagen festzulegen und periodisch die Höhe der wichtigsten Kostenfaktoren, Rohstoffe, Löhne, Generalunkosten einheitlich zu bestimmen.
- c) Kartelle mit Risikoausgleich. Dieses versucht man entweder durch eine Einschränkung der Erzeugung und des Angebotes, indem man jedem Mitglied ein gewisses Kontingent zuweist (reines Kontingentierungskartell), oder durch räumliche Aufteilung des Marktes in genau abgegrenzte Verkaufsbezirke (Rayonierungskartell), oder durch Gewinnverteilung nach einem bestimmten Schlüssel (Kartell mit Gewinnausgleich oder Kartell mit Absatzausgleich).
- d) Kartelle mit eigener Verkaufstätigkeit (Syndikate), die eine starke Beschränkung der Unternehmer-Selbständigkeit durch Lieferungspflichten, durch den Verlust der unmittelbaren Kundschaftsbeziehungen u.a.m. bedeuten.

Unter den Kartellen mit besonderem Zweckcharakter hebt Tschierschky folgende hervor:

- a) Die Submissionskartelle, die eine organisierte Abwehr durch Ausschaltung ungestügelter Wettbewerbs und genaue Regelung des Angebotsverfahrens bezwecken.

- b) Die Fertigungskartelle, die eine Spezialisierung der Produktion der Mitglieder organisieren und praktisch eine der Interessengemeinschaft nahekommende Zusammenlegung von Gewinn und Verlust erfordern.
- c) Die Markenschutzkartelle, die einen Preisschutz für Markenartikel bezwecken, das heisst Artikel, die unter bestimmter Bezeichnung in gleicher Herstellung und Aufmachung zu einheitlichen, und zwar vom Hersteller bis zur letzten Absatzhand vorgeschriebenen Preisen, vertrieben werden.
- d) Die Zwangskartelle, die durch irgend eine öffentlich-rechtliche Massnahme teils unmittelbar teils mittelbar gefördert oder veranlasst werden.

CLASSIFICATION CHART FOR BUSINESS COMBINATIONS.

Appendix II.

As suggested in the text, it is impossible to classify business combinations from the standpoint of one factor only, and this renders it equally misleading to attempt to describe any given combination by a single title. Whereas legally it may be an Ownership Arrangement of the Combine form and the Parent Company variety, from the financial standpoint many of its constituent units may be merely allied enterprises. Its operating methods may allow them almost complete administrative independence relying on influence to secure coördination of policy. At the same time a great deal of centralized productive and/or distributive machinery may have been established, which they use because they find it more convenient.

Or, in another case, the legal relations may be of the most informal description, while, owing to common shareholdings by one or more individuals, there is in effect a majority or total financial control in the hands of a highly centralized group. Their type of administration may involve centralized control of the most rigid description, while in the actual producing and distributing operations of the constituent units there is practically no common action other than that concerned with financial questions.

If therefore a satisfactory system of classification applicable to business combinations is to be established it must be on analytic lines. The attached chart, following the methods adopted in the text, analyses the various characteristics which are of importance from the standpoint of combination administration. These characteristics concern in the first place either the structure of the combination, when they are either legal or financial, or the operations of the combination, when they are connected with its administration, its production or its distribution. In the second place they appear either in the type or form of the combination as it is, in the purposes for which it was formed, or in the methods by which it was brought about. Under each of the headings formed by the combination of these two groups of characteristics, the more usual possible alternatives have been listed.

It is suggested that by applying this table to any given combination it is possible to build up an analytical description of its classification. It must be remembered, however, that the table may have to be applied in certain instances to every case in which the act of combination has taken place, that is to the relations between the central mechanism and each constituent unit. Business combinations are by no means uniform either in structure or in growth: they are frequently combinations of combinations. Thus no single system of classification can be applied to the very varying relations which may exist between the central unit and different constituent units, though progress in administrative experience tends to make such relations more uniform.

The table may however prove of assistance to executives both in analysing given combinations and as a check list of the factors which have to be taken into consideration in working out principles of administration.

S. STRUCTURAL.

L. LEGAL.

- I : From the standpoint of the
: Combination.
1. Unenforceable Arrangements:
: a. Exchange of Directors.
: b. Informal meetings.
: c. Formal conferences.
: d. Written instruments.
T : e. Do. with financial sanctions.
2. Contractual Arrangements:
: a. Association.
T : b. Bilateral Contract.
Y : c. Multilateral Contract.
3. Ownership Arrangements:
E : a. The Combine:
: i. Joint Ownership.
: ii. Mutual Ownership.
: iii. Parent Company.
: iv. Holding Company.
: b. The Fusion.
: i. Merger.
: ii. Consolidation.

II:

1. To avoid Tariffs.
H :
E : 2. To avoid objections to alien
: ownership.
O : 3. To avoid anti-trust legislation.
B : 4. To avoid publicity imposed by
J : company legislation.
E :
C :
T :

- III: 1. No Financial Relationship.
: 2. Subscribing Relationship
T : a. Of a fixed sum
H : b. Of a percentage of an
E : undetermined sum:
: i. Under common control
: ii. Under own control.
M : 3. By a Profit-Sharing Relationship
E : a. Of common enterprise
T : b. Of assembled profits of
H : separate enterprises.
O :
D :

P. FINANCIAL.

- From the standpoint of the
: Constituent Units.
1. Autonomous Enterprise.
2. Allied Enterprise.
3. Associated Enterprise.
4. Subsidiary Enterprise.
5. Branch.

1. To secure promoters' profits.
2. To invest surplus capital or
: credit.
3. To facilitate the raising of
: capital or credit.
4. To spread risks.

4. By an ownership
: relationship:
a. In Degree
: i. Minority holding
: ii. Majority holding
: iii. Total holding.
b. In Form
: i. Mutual ownership of
: principle.
: ii. Unilateral ownership
: of principle.
c. Method
: i. Purchase by cash
: ii. Purchase of shares or
: other consideration.
: iii. Creation of new capital.

O. OPERATING.

A. ADMINISTRATIVE.

1. Weighting of Control.
a. Influence.
b. Cooperation.
c. Coordination.
d. Centralization.
2. Distribution of Administrative Responsibility.
a. By degrees of authority.
b. Territorially.
c. By products.
d. By processes.
e. Functionally.

1. To increase power or prestige of
: executives.
2. To secure more experienced administration.
3. To coordinate policy for the group or
: industry.
4. To exchange data and experience.

1. By exchange of Directors between
: independent units.
2. By relationships between administra-
: tion of a controlling company and its
: constituent units:
a. Representation of controlling unit in
: administration of constituent units.
b. Representation of constituent unit in
: administration of controlling units.
c. Written reports.
3. By establishment of unified administrative unit:
a. Methods.
: i. Existing unit takes control.
: ii. New unit is established.
b. Degree.
: i. Complete control.
: ii. Certain powers delegated to other bodies
: or individuals.
: iii. Administration of certain subjects only unified.



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ADMINISTRATION AND MANAGEMENT OF BUSINESS COMBINATIONS

II.

An International Combination Producing a Luxury Article.

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INTRODUCTION.

The following report is the second in the series designed by the Institute to throw light on the problems of administration and management encountered in the case of large-scale business combinations, involving the centralized control of previously independent undertakings or of widely-dispersed factories and branches.

The first report in the series (International Management Institute S.R.20 C.2. 1932 "Administration and Management of Business Combinations - Introductory Report") dealt with the problems of classification and terminology encountered, and outlined the main questions which appear to press for solution in this special field. This and subsequent reports will deal with particular cases from the same angle. It is hoped by this means to build up gradually a body of factual information which will provide the necessary basis for inductive reasoning as to the principles of administration applicable in such cases. It will then be possible to contemplate a further series of studies dealing with the handling of the various recognized functions of business within combinations.

The combination described in the report, which desires to remain anonymous, has its headquarters in Great Britain and is engaged in the production of a luxury article for domestic use. The investigation was made and the report prepared by Mrs. Wheatcroft, who was given every facility by the officers of the Company. The Board of the Institute takes this opportunity of thanking those concerned for their collaboration.

It is inevitable that any written description of the administration of a progressive business undertaking should be out of date before it is published. In the case in question far-reaching changes have taken place since the material was collected. The report has therefore been presented in the historic tense. Moreover such descriptions must necessarily be, to some degree, misleading. They are, as it were, a snapshot of a temporary condition and do not emphasize the long-term factors which tend to shape the administration of dynamic and large-scale undertakings. These limitations are recognized by the Institute, as they will be appreciated by all those engaged practically in the conduct of business.

Until however, a technique has been developed for presenting a moving picture of a developing administration - and even such a picture would necessarily leave out of account many of the psychological issues which may be of paramount significance - such snapshots are the only method available of accumulating factual information. Any attempt to assess the forces and tendencies which have led to a particular situation or to forecast probable lines of development would involve elements of judgment and opinion. But the introduction of such elements would be destructive of the objective standpoint which alone can render such material of value to scientific students of the subject. It is hoped therefore that this and subsequent reports in the same series will be accepted as a contribution to the accumulation of observations which must precede the statement of principles. They are neither complete in themselves, nor aim at being so.

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AN ENGLISH COMBINATION ENGAGED IN THE PRODUCTION OF

A LUXURY ARTICLE FOR DOMESTIC USE.

I. INTRODUCTION.

A. THE OBJECT OF THE REPORTS.

Some of the major administrative problems with which the leaders of industry are concerned at the present day are those arising out of the new and complicated relationships which emerge in the attempt to find an efficient organization for a combination of units. Many large-scale companies, even if they are not contemplating or have not recently been engaged in a "combine" or "merger", are faced with the question of the control from a central office of subsidiary companies or of branches established in new territories.

The extent to which the structure of business has been changing in recent years in the direction of combination, that is to say, of the establishment of some sort of central control over groups of formerly independent trading units, was described in the first report of this series recently published by the International Management Institute.* This report also emphasized the complexity of the different types of structure which are developing, and suggested some of the administrative problems created as a result of this movement.

It is apparent from the variety of practice between different groups, the frequent changes of organization policy encountered even in some of the most successful combination, and the large losses sustained in certain instances, that those who are responsible for their administration themselves recognize that the knowledge and collective experience as to the principles which should underlie combination organization is at present inadequate. In some cases chiefs of large concerns are handicapped by an organization structure which is so much centralized that the demands on their time to settle routine matters prevent them from being free to give adequate consideration to the more important problems. In other cases, the organization is so decentralized that adequate data on which to base administrative decisions is not available, or there is no certainty that such decisions when made will be carried out effectively by the scattered units which make up the combination. Yet, while the difficulty of framing efficient mechanisms to coordinate administrative control increases with the size of the undertaking, it also becomes more essential that such mechanisms shall be established if it is to compete successfully with concerns of smaller size.

It is a truism that the problems of every combination differ from those of every other in certain respects. But, in every case where affairs are conducted by a number of individuals working together for a specified purpose, certain common problems and principles emerge. Individuals who have had some comparative experience of such problems obtain a basis of experience applicable to other cases.

Many of the questions which arise in the administration and management of industrial combinations are capable of such comparison. There are such psychological problems as i) the establishment of satisfactory relationships between the central office officials and the managers of the subsidiaries or branches; ii) determination of the degree of delegation of authority and responsibility; iii) the best methods of allocating salaries and rewards

* The Administration and Management of Business Combinations, 1932.

iv) the scheme of promotion to adopt; v) the coordination of administrative control through the exchange of Directors on the boards of the combined companies, or the establishment of joint committees. There are financial problems, such as i) inter-company accounting and costing methods, ii) the control of Branch expenditure, and the use of budgets. On the production side there are the problems of i) centralized or decentralized manufacture; ii) the relative advantages of large-scale production, or of the avoidance of freight duties, and the numerous other reasons which may make local manufacturing more economic; iii) the method of arranging for and coordinating research and experimental work. On the distribution side arise such points as i) the comparative efficiency of advertising in national and local newspapers; ii) types of market research applicable to different products; iii) relations between design and saleability; iv) methods of packaging and presentation. The questions selected are of course only typical: there are many others. The contention that the universal character of these questions makes comparative consideration worth while, is confirmed by the fact that in England the leaders of some of the largest industrial combinations have formed a discussion group on this subject.

But discussion needs to be supplemented by written descriptions of the organization and methods of administration and management actually adopted in certain selected industrial combinations. Students of business may thus obtain a clearer understanding of the type of industrial structure which is being developed at the present day. A body of experience will be recorded which will be available for those in all parts of the world engaged on problems of a similar character. Gradually, such information should bring to light certain general principles which may assist in those cases where the reorganization of industrial concerns into larger groups makes necessary the overhauling of administrative mechanisms and provides an opportunity for the introduction of more efficient methods of organization. It is the purpose of this report and of others which, it is hoped, will follow it to provide such a basis for inductive study of the problems of combination administration.

B. METHOD OF THE INVESTIGATION.

In conducting an enquiry into methods of organization and administration the name or precise products of the combination concerned are not matters of vital importance, any more than in discussing engineering principles it is necessary to know where a particular bridge is to be constructed or the name of the firm which has obtained the contract. Indeed there is a danger that identification may lead to the introduction of personal or business prejudices disturbing to the objectivity which should govern all scientific enquiry. The present study was made by an investigator who has no connection with the company concerned. It was however carried out with the full cooperation of the management. The Institute is extremely grateful to the Company for making the necessary data available and for the patience with which many of its staff made time for personal interviews in which to describe the functioning of the company's organization and to discuss its problems.

The investigation was made in March and April of 1931, and this report gives as far as is possible a description of the organization of the combination as it was at that date. The company has subsequently joined with another large combination engaged in the same trade, and a holding company has been set up to control and coordinate the two. Hence the organization has changed considerably since this report was drafted; but this does not affect its interest from a scientific point of view. At the time when the investigation was made, the negotiations for the merger were not yet completed, and the resulting changes in organization had not been initiated. At this time, the company possessed features which are typical of many groups of industrial enterprises where a number of manufacturing and selling units, in the home country and abroad, are under the control of a central unit. The report attempts to give a picture of the way in which such a group actually operates in practice, and of some

of the problems which emerge. The accuracy of such a description as a record of fact must necessarily suffer from the difficulty of attempting to describe in static terms so dynamic a phenomenon as a progressive industrial organization.

The method adopted was to collect and study the available data with regard to the history and financial position of the company, to its development, and the relation of its development to that of the industry as a whole. Next the investigation examined such written material as would throw light on the internal organization of the company, as for example, organization charts, minutes of conferences and committees, reports from branches, and so on. Finally, personal interviews and discussions with executives were used to discover how far the organization in practice actually works in accordance with its theoretical plan. Any opinions which are expressed thus represent the impressions received by an outsider from conversations with a number of different officials of the company, and not the views of any one executive.

To obtain the foundations on which to base the special queries with which this investigation was started, it was necessary to obtain a general picture of the organization and a knowledge of the history and of the class and area of trading of each of the various units which go to make up the combination; of the activities of the central office, the composition of the staff, and the functions of all its chief members. The enquiry was, however, concentrated particularly on a study of that part of the organization of the company concerned with the relationships between the central control and the various subsidiary, allied and associated companies and branches. This covered such questions as, the degree of administrative control exercised by the central Board and the degree left to the managers of the constituent units; the machinery by which administrative decisions, whether centralized or decentralized, were made; how far routine matters were left to the local units; what type of relationships existed between the head office departments and the managers of subsidiary units, and what was the degree of their authority? Further, what reports were received at the central office from the various units of which the company is composed, to whom were they sent, and who read them? What was the policy of the company with regard to the appointment of the staff of the subsidiaries and the control of their finances? The underlying trend of these queries was to discover, to what degree the administrative control of the combination is centred in the Board and chief executive officers, or to what degree questions of policy are left to the managers of the constituent units; and in the case of each of the main functions of the business, which are centralized at the head office, and which carried out at the branches?

II. DESCRIPTION OF THE COMBINATION SELECTED FOR THE INVESTIGATION.

A. HISTORY AND TYPE OF OPERATIONS.

The combination which was chosen as the first of this series of investigations and which we shall call the X Company, Ltd., is registered and has its headquarters and main factories in England. It is engaged in the manufacture, largely on mass production lines, and the sale, under well-known trade-marks, of a luxury product used chiefly for domestic purposes, together with a number of related and accessory products. The company, which is itself controlled by American interests which hold the majority of the issued capital, carries out its operations through a number of subsidiary, associated, allied companies, branches, and local distribution agents. Its distributive organization covers the world with the exception of North and South America, China and Japan, from which it is excluded by a trading agreement.

Some indication of the scale of operations of this company may be given by the following figures:-

For the year to March 31, 1931, the turnover of the company amounted to £4,422,296; the issued capital being £3,300,000. The number of employees at the central offices and factories was 5,634, which represents a falling off of over 1,000

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from the previous year, as a result of the trade depression. The company's exports of the two chief products in which they trade, amounted to over 50% of the total exports from the country.

The company was first registered in 1899 and early developed connections with other companies on the continent of Europe. A merger was effected in 1900 with an English company engaged in the same lines of production. The present factory buildings were started in 1907. The growth of the head office and central plant is indicated by the following figures:-

	1908.	1925.	1930.
Number of employees	262	3,318	6,890
Total working area (sq.ft.)	111,681	612,286	1,255,121

In addition to rapid development at home, the company has been engaged in building up its foreign sales organization and recently has also developed a number of factories abroad to meet the needs of its foreign companies and branches.

A number of technical inventions have changed the industry to a considerable extent in the last six years and have caused the company to enter into the manufacture of a new and related line of products. In 1929 control was acquired over another English company which was engaged in the manufacture and sale of this new line. The factories belonging to this company are directed by the central production department of the parent concern, and are worked in close co-operation with them. The new company, however, maintained its separate legal identity, and in this report will be called the Z Company, Ltd. It continued to operate as a selling organization, using its own name and trade-marks. On the whole the X Company has had a remarkably successful record in regard to its profit earning capacity. Figures of financial results are given in Appendix I.

B. UNITS OF WHICH THE COMBINATION WAS COMPOSED AT THE TIME OF THE ENQUIRY.

1. Head Offices.

The head offices of the company were situated at the site of the main factories. This is the seat of the general administration of the combination, of the chief executive departments and of the operation of the main factories. Employees at the head office numbered 1,463 in March 1931.

The administration of the company was carried out through a Board of Directors including a Managing Director who was responsible to it for general policies. Reporting to the Managing Director was a General Manager responsible for all the routine operations of the company. He was assisted by an Executive Committee composed of the managers of the chief departments which dealt with matters of policy not sufficiently important to be referred to the Board. To the General Manager reported the executives in charge of each of the main departments into which the operations of the company were divided, and the managers in charge of the branches and subsidiary companies. There were six chief executive departments of the head office, viz., General Managers' Department, Secretarial Department, Controller's Department, Works Manager's Department, Product Engineering (research) Department, and a department in charge of the production and sales of an accessory necessary for use with the companies' products, the sales of which formed an important part of the companies' business. This accessory will be referred to as Product "A".

2. Factories.

a) Home factories. The main factory, with some 4,165 workers, was responsible for the major part of the company's production and supplied the branches which sold in the United Kingdom. It also shipped to some foreign distributors, and

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supplied foreign factories with parts for assembly purposes. The total floor area covered by the factories, head office and sundry buildings such as garages, canteens, stores, etc., was 30 acres.

A second factory, some thirty miles from the main factory, was also operated by the company. This factory previously belonged to the Z Company and manufactured a separate line of products subsequently used in connection with those of the X Company. The two home associated companies each had smaller factories engaged in the manufacture of parts used in the Z Company's product.

b) Foreign Factories. There were 7 factories abroad under the direction of the X Company, and one other which was operated by one of the foreign associated companies. These factories were engaged primarily in assembly work, the parts being manufactured at the central factories. They also made Product "A". The number of workers employed in these seven factories was approximately 1,056. These factories were supervised by the managers of the branches in the territories in which they operated. There was, however, a foreign factories department at the central office responsible for the construction of overseas factories and for general control of technical progress when they were in operation.

3. Distribution Organization.

In addition to its head office and main factories, the company carried out its operations through the following branches, agents and related companies:-

a) Head Office Branches. There was one branch in England and two overseas. These were: the English branch, which had its independent offices, operated six retail shops, and through some 3,000 dealers was responsible for the company's sales throughout the United Kingdom, Ireland and the Channel Islands. The branch obtained all manufactured goods from the central factory. Staff employed by the branch numbered 235, and in the retail shops which were under their direction 87. The two branches overseas were both responsible for the operation of a factory and for distribution within the areas which they covered.

b) Subsidiary Companies (100% owned). There were nine subsidiary companies, two registered in Great Britain, the others in foreign countries. Of the two former, one, the Y Company, Ltd., with a selling organization quite independent of that of the X Company, Ltd., marketed through wholesalers, factors and jobbers, and under a separate trade-mark both in England and abroad, products of a cheaper quality than those produced by the X Company. This company had its own sales, advertising, and accounts departments, but used the factories of the X Company, also their shipping and technical departments.

The second, the Z Company, which was started in 1922, came under the control of the X Company in 1929. The factory was operated directly under the supervision of the Works Manager's department at the head office, and an attempt was made to combine the selling organization with that of the parent concern. This, however, resulted in the falling off of sales of both companies, and the Z Company then operated an independent sales organization, which distributed through factories and dealers in the United Kingdom and abroad.

The other seven subsidiaries were each started by the X Company to carry on its distribution in the foreign countries in which they operated when the business became of a size to be worth taking out of the hands of local agents. Started primarily as sales branches all but one operated as well at the date when the investigation took place.

c) Associated Companies (51% to 100% controlled). There were two foreign associated companies, one engaged in distribution alone and the other in both production and distribution. In both cases the remainder of the share capital was held by the local managers, and there was little difference in the re-

relationships between these companies and the X Company, and that of the subsidiaries and branches, save perhaps that they were left a somewhat greater independence of action by the central office.

d) Allied Companies (50% or less controlled). There were three allied companies, two in England which were engaged in the production of parts which are used in the Z Company's machines, and also sold independently. The X Company did not interfere with their operations, save that its representatives sat on the board of each company. The third allied company was formed by one of the foreign distribution agents, and the X Company bought an interest in it and an option on the remainder of the shares on the death of the manager. It took supplies from the central factory, but in its distribution policies was practically as independent as the local distributing agents.

4. Countries Covered by the Companies' Operations.

There were subsidiary, associated or allied companies or branches in the following countries: - United Kingdom, India, Australia, France, Germany, Spain, Denmark, Sweden, Czechoslovakia, Turkey, Holland, New Zealand and Italy.

In the following countries, distribution was carried on through local agents: - Egypt, Sudan, Greece, British West Africa, Syria, Turkey, Madeira, Crete, Portugal, Gibraltar, South Africa, Malta, Cyprus, Palestine, British East Africa and Switzerland.

Note. Following the custom of the company, and unless stated otherwise, in this report the term "Branches" is used to cover branches and subsidiary and associated companies; and the term "Branch Manager" for the individual responsible for the operations of each of these units.

III. THE ADMINISTRATION OF THE COMBINATION.

A. POLICIES CONCERNING THE CONSTITUENT UNITS.

1. General Policy with regard to the Centralization of Control.

The policy of the administration in the past has undoubtedly been to keep a highly centralized control over the operation of all the units within the combination. Not only were all administrative decisions relating to the combination as a whole centralized, but also all questions of policy relating to the operation of any one of the branches. For example, all questions of development policy, such as the starting of a factory or the opening of a new retail store, would be referred to the central administration, who also controlled the retail and wholesale prices in each country and important sales policies, as for example, the commissions to be paid to dealers. This central supervision of control was applied not only to matters of a purely administrative nature, but also to questions which related really to the routine operation of the branches. Further, so many questions had to be referred to the central office, that the Branch Managers had come to feel that there was practically no important decision which could be taken on their own authority, and it had become a habit to refer constantly to one or other of the head office staff on matters, many of which were only of minor and local importance.

Besides general questions of administrative policy, the operations of the combination were especially highly centralized with regard to questions of: i) finance and expenditure; ii) research; iii) the design and development of new products; iv) the control of production methods; v) the sources of supply of materials; vi) the appointment of the higher personnel. The

branches were given greater independence in question of i) sales methods and of advertising (within the limits of an allotment for expenditure on advertising which is determined centrally); ii) office management; iii) accounting; iv) the purchase of supplies; v) relations with labour.

The branches were started primarily as distribution centres, and the attitude of the company towards them was partly a result of the habit of regarding them as such. Hence it was assumed that the general development of the company, and the design and manufacture of as technically perfect a product as possible were the functions of the central office and factory. It was the function of the branches to sell the product that was handed out to them, largely on the theory that if it was a good product it would sell itself, without detailed reference to apparent differences in local demand for style and type. When the foreign factories were started, little difference was made in this policy of centralized planning. The decisions to start the factories was made centrally, and their building was directed from a central planning department. They were built as far as possible on standard lines, and to carry on production on the methods which had already been standardized at the central factories.

This account applies to the policy of the company towards its branches, subsidiary and associated companies at home and abroad. It does not apply to the three allied companies in which the combination held only a minority interest. In the case of the two of these companies which had their headquarters in England, no attempt was made to control their operations, but a general supervision over their policies was exercised by one of the members of the staff of the combination who was on the Boards of both companies. This executive was in charge of the sales of machines, and was formerly manager of the Z Company, for which company both the allied companies manufactured certain parts. In the case of the foreign allied company, the combination was not directly represented on its Board, but close contact was kept by correspondence and personal visits between the staff of this company and the central office.

2. Policy with regard to the staffing of Constituent Units.

The managers of the branches were appointed by the General Manager of the parent company, and were responsible to him. The policy of the company as a general rule was to appoint as branch manager, either a national of the country, or an Englishman who had been resident there for some time and was well acquainted with the language and custom of the people. The factory manager and the few chief executives at each branch were appointed by, or with the approval of, the central office. Other appointments were made locally. The branch managers were paid a salary fixed by the General Manager, and in addition a commission as a reward for the successful operation of the branch. It was estimated on the sales and expenses of the branch. In some cases the Second in Command at the branch also received a share in the commission.

There was a rule that any increases in the numbers of the staff at the branches, any appointment involving a salary over £260 per annum, and any increase in the salary of a member of the staff over this amount, had to receive the sanction of the central office.

The department of the central office which was in charge of the foreign factories had a definite scheme of training for the factory managers who were sent overseas. The policy in the case of the factory managers, unlike the case of the branch managers, who were in charge of the selling side of the business, was usually to engage an Englishman who was either a university man, or at any rate had a good technical education and had also a knowledge of languages. These candidates were given an intensive training lasting

over at least a six months' period, in the central factories and offices. This training concentrated especially on each detail of the technical process of production. The operations of each department were watched, and detailed reports written of each. After this training, the candidates, if satisfactory, were sent out to the foreign factories as manager or assistant manager. The selection and appointment of such men was undertaken mainly by the foreign factories department, in some cases with the assistance of the personnel department.

There was no formal scheme for grading the various ranks of executives nor any formalized promotion policy. A central personnel department had been started with the idea of effecting coordination between the policies of the various departments and branches on questions of salary, and of facilitating transfers of staff. Periodically it had collected records of the numbers, positions, history and qualifications of the higher personnel throughout the combination, but these do not appear to have been used to any great extent, nor were they maintained regularly. Transfers of staff from one part of the combine to another, or as between the central office and the branches took place sometimes though not very frequently. All such appointments were approved by the General Manager himself.

It was the policy of the company as far as possible to make transfers as opposed to taking on new staff from outside. But there had been several appointments within the previous few years to some of the highest executive posts which had been filled from outside the Company. This was possibly due to the lack of a formal promotion scheme, or to the fact that in the past adequate consideration had not been given to the training of successors for the chief executive posts.

3. Policy with regard to Finance.

The policy of the company had been to keep a very close central control over finance, both in regard to the initiation of projects involving expenditure at the branches, and also with regard to the current funds actually handled by them.

All new capital or bank loans for the financing of the combination were raised centrally, either by the company itself or where legal or national requirements made it advisable, by a nominee of the company, in the name of the subsidiary. The capital of the combination was all centrally controlled, sums for all capital expenditures being sent from the central office every month in accordance with the agreed allotments.

In regard to every-day expenditure, the Branch Manager sent in an estimate of requirements every month, and funds were transferred from the central office to meet these requirements. The system of control over branch funds was as follows:-

Every branch maintained two separate bank accounts. One was a deposit account held in the name of the X Company, in which all receipts were deposited. Funds could only be transferred from this account against signatures from the central office. Surpluses were transferred to the X Company's English bank every month. It was the policy of the company not to leave surpluses lying idle in foreign banks any longer than was necessary.

The second account was held in the name of the Branch Manager, and usually of one or two others of the branch staff, and funds were transferred to it for the operation of the branch every month, either by drawing on the Company's account at the local bank or by draft from England.

With regard to capital expenditures, the Branch Managers were only empowered to grant on their own initiative, expenditure up to £25. Any

projects requiring more than this amount had to be referred to the central office where they were reviewed by the Finance or Executive Committee according to the amounts required. Once the project had been approved, allowances in respect of it were made to the branch each month through the controller's department.

Every-day expenditure was controlled through a monthly report sent in from each of the branches summarizing the expenditure for the past month, and the estimated requirements for the ensuing month, together with a comparison with the actual expenditure for the corresponding month of the previous year.

In addition to the forecast of cash requirements, an estimate of sales for the ensuing half year was sent in by the branches every three months.

The policy of the company with regard to inter-company accounts had recently been changed. Previously the branches had invoiced goods directly to each other, at varying prices. This led to a certain amount of confusion as to where profits were really being made. All dealings as between one branch and another were therefore treated as though they were with the central office and were invoiced directly to the head office at cost price. Goods were always invoiced to the branches from the central office at cost price, at which price ad valorem freight or tariff charges were estimated. This constituted the factory price and did not include an allowance for the expenses of the head office. Since all the profits from the subsidiaries and branches were paid direct to the company it was not important where the profits were shown, and no attempt was made to evaluate the work done by the head office for each of the branches.

4. Recent Changes in Administrative Policy.

The policy of the combination with regard to the control of general administrative policies, and also of the primarily administrative activities of staffing and financing, has been shown to have been, on the whole, in favour of a close degree of central supervision.

It was noticeable however, that at the time of the investigation these policies had been undergoing certain changes, and there was a tendency both to give the branch managers a greater share in framing the policies of the company, and also to decentralise the actual control and operation of certain activities.

Some of the members of the central office staff anticipated that much greater changes would soon be made in this direction, and that the branch managers would be given fuller data as to the general progress and policies of the company, and fuller information as to the costs and operations of the central office and factories. They thought that they would be given complete responsibility to carry on the administration and management of the combination in their own area, without central supervision unless the results of their activities were unsatisfactory. Instead of detailed instructions from the central factory as to the design and methods of manufacture of the product, the branch managers, equipped with better technical assistants than formerly, would be left free to adapt the designs for improvements in the product and for new products as sent to them, to the needs of their localities. They would be free also to fix their own prices, and to concentrate on the manufacture of those machines which would seem best adapted to the local demand, and to sell them according to their own methods. Opinions differed as to whether so great a degree of decentralization was at the moment desirable, but there seemed to be general agreement that some change was needed. Some of the members of the central office staff felt that such a change must necessarily be brought about gradually, and that the views of the branch managers in certain matters had not proved sufficiently in accord with those of the central office for it to be advisable to allow them too much freedom in the framing of policies. For instance, attention was called to a tendency

for them to neglect the point of view of the long run interests of the business in consideration of immediate returns. The branch manager would prefer to have a new model as early as possible, in order to get it before a competitor had brought out a similar design, while the central administration was more concerned with maintaining the reputation of the company for quality and was not in favour of bringing out the new machine until it had been technically perfected. Such differences arose partly from the fact that the branch managers were primarily salesmen and were not expert in the technical aspects of the business. They would to a certain extent be removed if the branches were each provided with a highly trained technical assistant. Partly they were a result of the fact that in some cases the interests of the branches and of the combination as a whole were not identical, as for instance where a branch manager could make economies by manufacturing a certain product locally whereas the central staff knew that if manufacture was decentralized costs of production for the combination as a whole would rise. There were other difficulties, naturally, in the way of effecting such a change in the general attitude of the company. The habit of constant reference to the central office established among the branch managers would prove persistent. To reduce existing authority must be a delicate operation. Under the new arrangements the central office staff would have to give up a portion of their control. They must accustom themselves to watch without interference the initiation by the branches of policies with which they might not be in accord.

It is therefore significant to analyse some of the reasons which were leading to these changes in policy. With the growth in the size and the sphere of operations of the combination, the old forms of control would appear to have become too highly centralized for the most efficient operation. That is to say, on the one hand the chief officers of the company were finding that too much of their time was pre-empted with matters of routine which should have been decided at the branches. On the other hand, the branch managers who had mostly been in the service of the company for a fair period, and were men of a considerable degree of competence, were handicapped in carrying on their business by the necessity of frequent reference to the central office. Their initiative and their authority suffered. Further, the number and variety of the reports which were demanded by the central office all required an amount of labour for their preparation out of proportion to the results obtained.

Since the branches had the distribution of the products of the company almost entirely in their hands, there was a tendency in the determination of policy by the central office for the consideration of the distributive point of view to be subordinated to that of the production side. Hence the branch managers complained for instance that new products were put on the market at the worst time from the point of view of the seasonal demand, or that the style of the product was not suited to their special local needs.

Related to these changes in the general attitude of the company towards its development policy, which were leading the administration to consult more with the branch managers, was a change in its production problems. It has already been mentioned that in the previous six years the industry had undergone rapid technical changes. As a result, the company found itself entering an entirely new field involving both different technical questions in manufacture, and also the use of a separate dealer-selling organization with its own established customs and trade practices. Added to this, technical considerations made it necessary to produce a somewhat different type of machine in different countries, certain adaptations being necessary for local conditions: the position was further complicated by the fact that the patents necessary for the production of the new machines were held by different interests in different countries.

In some cases the necessary patents were held by a close ring of producers, and it was not possible to obtain a license to use them. In consequence the

company could neither import nor manufacture locally certain necessary parts for their machines.

The local manager had to arrange for their purchase from one of the patent owning concerns.

These technical changes in the product necessitated to some extent the breaking up of the old system of standardized manufacture. They had been one of the causes of the development of factories overseas, and they also made it less easy to operate these factories on a standardized plan. As a result the administrative problems of the branches both in the field of production and distribution were becoming more complicated, and tended to differ one from the other to an increasing degree. High costs of transport, and in some countries almost prohibitive tariff charges were two further causes which had helped to bring about the decentralization of manufacture.

As a result then, of a variety of causes, the company appeared to some extent to be breaking up its old system of highly centralized administration and operation.

This change was shown, first, in the fact that the branch managers were being given a somewhat greater share in the framing of policies. For example, the methods of fixing prices had recently been changed. Previously both wholesale and retail prices had been fixed for each branch at the central office, being based on the cost at the factory plus shipping costs, with a standard percentage to cover cost of retailing. Prices were no longer fixed at the central office, but under the new system when any new machine was put on the market, full information as to the costs of production and of shipping were given to the branch managers who made an estimate of their own costs of distribution and suggested prices for sale in their area. These prices were, however, subject to the approval of the central office.

This is one instance where greater influence was being allowed to the branch managers. The wish of the central administration to obtain greater co-operation from branches in the framing of policies was shown also in the fact that the branch managers' convention was called twice instead of, as formerly, only once every year. This meeting of representatives from all the home and overseas branches and of the central office staff was held at the central office. It discussed a number of questions relating to the operations of the branches. These meetings were also being developed to obtain the opinions of the branches on questions of policy which had previously been settled by the central office without consultation. They were also used to allow more freedom to managers to experiment with new methods of distribution, the progress of some such experiments being reported to and discussed at the convention. Similarly, the various departments of the central office which had contacts with the branch managers were being instructed to intervene less in cases where initiative was taken by the branch managers, and to avoid any appearance of issuing orders to the branches.

Besides changes in the general attitude of the central office towards the making of administrative decisions affecting the branches, there had been certain changes in organization designed to give greater freedom and responsibility to the branch managers. The most important of these was a change in the organization designed to give greater freedom and responsibility to the branch managers. The most important of these was a change in the organization of those branches which operated factories as well as serving as distributive centres.

Under the revised system, which had only been in existence for a year, the branch manager was directly responsible for all the operations of the company in that area under his control and was responsible only to the General Manager. Previously the branch manager had reported through the Manager of the sales

department. Managers of branch factories had formerly reported through the Foreign Factories Department to the Works Manager. This system had led to various difficulties since the factory managers were not definitely the subordinates of the Branch Manager. While they were supposed to cooperate, if the Branch Manager could not get the Factory Manager to comply with some request he had to refer the matter to the Sales Department at the Head Office, who took up the matter with the Production Department, who took it up with the Factory Manager in question. The obvious difficulties of such a system were probably complicated by the fact that the Branch Manager was often a national of the country in question, or at least had lived there for a long time, and was specially sensitive to local needs, while the Factory Manager had probably been trained at the central factory and so was more in touch with the Head Office point of view. The new system was found more satisfactory, and while the Factory Managers became officially subordinate to the Branch Managers, they still kept close touch with the central Foreign Factories Department on all questions connected with the technical operation of the factory.

Added to these changes in organization, an attempt was being made at the central office to check the intervention of the central staff with the control of branches by clearing instructions through a single authority - the General Manager's Department - save in the case of matters affecting the factories, which were dealt with by the Foreign Factories Department. In the exchange of information or opinion, the Branch Managers and the heads, and even other members of any of the central office departments, corresponded freely with one another. But there was a rule, though it did not appear to be strictly observed in all cases, that letters giving definite instructions to the Branches should be signed by the General Manager. A proposal was under consideration that there should be one single clearing department for all matters of routine between the central office and the Branches.

Further, an attempt had been made to simplify and to reduce the numbers of the reports sent in to the central office by the Branches. The Controller's Department had made a collection of the various forms on which information was sent in to a number of departments, and it was found possible to eliminate certain reports giving overlapping information and to simplify others.

Finally, there was a movement to give much fuller information to the Branch Managers, as to the policies and the future development of the company and the industry as a whole. It was realized that it was useless to expect them to make wise administrative decisions without sufficient data on which to base them. For example, much fuller information was being sent to them with regard to the work of the Central Product Engineering and Production Departments. Formerly the Branch Managers had not been informed as to the development of new machines until such time as their design and production had been completed at the central office, when the parts for assembly purposes or the designs for manufacture were sent out to the foreign factories. One result of this policy had been that the product was often not ready to be marketed abroad until six or nine months after it was put on the market in England. This delay had in certain cases put products behind the issue of competing models. Further, since the Branch Managers had not always been informed in advance as to the nature of the new developments being introduced by the company, he had not been able to prepare his sales organization, and to advertise in advance. On one occasion a Branch Manager instructed his salesman to minimise the importance of a certain innovation which had appeared on a competing machine, only to find that six months later he was expected by the parent organization to make a special feature of the same innovation on one of the company's machines.

To meet the difficulties of the Branch Managers on these and similar points, three new sources of information were established as between the Product Engineering Department and the Branches. One was a regular monthly service of information to keep the Branches in touch with the work of the department, and

with the progress of new developments. In addition to this, periodical reports were issued by the department on any special discovery in scientific periodicals which might be liable to lead to changes in the industry as a whole. This was to enable the Branch Managers to evaluate the importance of such changes, and of rumours which might appear in the daily press with regard to them, and to help them to answer questions with which they might be faced as to developments in the industry and their effects on the immediate business of the company.

The third source was a section of the Product Engineering Department which formerly prepared technical information and instruction books for the Sales Department. This was developed into a regular channel of communication with the Branches, on all technical questions connected with any of the products of the company. It prepared and sent out to all the Branches a technical description of each line of the company products from which they could each make up their own booklets of instruction for dealers, and also prepare advertising material. It also replied to any technical problems raised by the Branches with regard, for example, to the products of competitors.

It was also arranged that, as the decentralization programme was carried out, each Branch Manager should be provided with a much more highly trained technical assistant who would be given full information as to the developments going on at the central factories and research departments, and a free hand to adapt them to local needs.

B. THE COMPOSITION OF THE ADMINISTRATION.

1. Outline of the Administrative Organization.^x

The last section discussed some of the administrative policies of the combination, and especially tried to show what had been the general trend of policy with regard to the centralization of control.

This section describes the organization responsible for the framing of such administrative decisions, both at the central office, and also at the Branches and allied companies. This organization, as is usually the case in business corporations, was composed partly of groups of individuals in committee, partly of individuals acting on their own responsibility.

As a public limited liability company, the final control of the policies of the X Company vested with the shareholders. Responsible to the shareholders was a Board of Directors which was the chief administrative body, and which passed upon major policies. Only one member of this Board, the Chairman and Managing Director, was actively engaged in the operation of the company, and to him were delegated certain of the administrative functions of the Board. Supervision over the routine affairs of the company was delegated to the General Manager who, with the advice of an Executive Committee composed of the heads of the chief departments of the central office, was responsible for framing many minor administrative decisions. Reporting to the Executive Committee there was a network of committees and sub-committees in each of the departments. These discussed departmental policies and acted in an advisory capacity to the head of the department, who was usually chairman of the committee and was responsible for action taken as a result of its decisions.

The head of the administration at the Branches was the Branch Manager, although as has already been shown many administrative decisions with regard to the Branches were taken by the committees and the chief executives at the central office. At those branches which were legally incorporated as companies, there were Boards of Directors which met several times a year and reviewed the general

^x See Appendix II. for the general organization chart of the Company. App. II. contains a chart of committees, and a tabulated summary of the Membership, functions & meetings of the chief committees.

policies of the Branch. The parent company was represented on almost all of those boards by some member of the central staff. Advisory to the Branch Manager, there were committees at certain of the Branches which reported through the Central Sales, Manufacturing or Product A. Committees, to the Executive Committee. They dealt with minor matters of policy arising in the branches in relation to one or other of the chief functions. Finally, administrative questions affecting several or all of the Branches were discussed and decided by the Branch Managers' Convention which met at the central office twice a year, and of which the General Manager was chairman.

2. The Board of Directors.

The Board was composed of nine members. The Chairman, who was at the same time Managing Director, had been a member of the staff for thirty years. Of the other eight members, two were citizens of the United States of America, one being President of the American company which had control of the majority of the shares of the X Company, and the other, President of another American concern connected with it by a shareholding relationship. The Company Solicitor, head of a firm of London solicitors who did a great deal of legal work of the company, was also a member of the Board. Another member was Chairman and Director of various companies, including several insurance companies. He was a solicitor though not in active practice. He was one of those who originally helped to finance the Company. One of the original Directors of the company, he had retained his seat on the Board ever since. Another original Director of the company, still on the Board, had been Chairman but had retired from that position. He was also a Director of a number of other companies not connected with the X Company, as well as of several subsidiaries. Another of the Directors joined the Board in 1916, being appointed on account of his business experience and qualifications. He was a manufacturer in Lancashire, and had other business interests and is still the Chairman and Director of several other companies. Of the other two Directors, one, who was appointed in 1929, was the inventor of important patents connected with the company's production, and the Chairman and Director of other companies in related lines of business. The other, who was appointed in 1930, was a man eminent in his own profession who had for several years acted in an advisory capacity to the company in regard to a certain technical aspect of their business.

Meetings of the Board took place once a month. With the exception of the two American Directors who only attended when they happened to be in England, the members were fairly regular in attendance. Business was conducted according to a standard agenda form, the agenda being prepared in the office of the Company Secretary. He also attended the meetings, kept the minutes, and was responsible for circulating them to members after the meetings, and for communicating the decisions of the Board to any department or individual member of the staff who was concerned.

Every month, certain reports were submitted to the Board. These included: i) financial statements, showing cash and current accounts, investments, etc; ii) sales figures in quantities and values during the past month (previous year's figures for the same period being given for comparative purposes) and also the progressive sales totals from the beginning of the year, with comparative figures for the previous years; iii) reports on sales from each Branch; iv) reports on share transfers audited during the month. Further, reports and the necessary papers were submitted dealing with any special items being brought before the Board for its consideration and decision, for example, questions of capital outlay and other similar matters which required the Board's sanction.

Certain questions were always referred to the decision of the Board. On the one hand these were matters for which the Board sanction was legally necessary, such as, the annual review of the accounts and dividends to be paid. In addition certain questions according to the rules of the company were always kept for Board sanction. These included, for example, salaries and appointments of executives, involving over £1,000 per annum, questions of capital expenditure

above a certain amount, and, every year, the amounts to be spent by the company on advertising, research work, etc. In addition, the Board discussed such general questions of policy as were brought before it by the Chairman, who also reported any important negotiations or developments which were in progress.

3. The Boards of Directors of Subsidiary, Associated and Allied Companies.

Each of the Branches which was registered legally as a company had its own Board of Directors. These Boards varied in importance, most of them meeting twice or four times a year to review the general policies of the company. But all important questions of policy were really decided by the central administration. In the case of the foreign companies, the Boards were usually composed of several members of the local management and one or two members of the X Company, who were responsible for communicating the policies of the central office to them, and for themselves keeping in personal touch with the Branch through their visits to Directors' meetings.

The Chairman and the ex-Chairman of the central Board were members of several of the subsidiary Boards, and the Company Solicitor was on the Board of the Z Company, one of the English subsidiaries.

In addition, the X Company was represented on certain of the boards of subsidiary, associated and allied companies by the following of its central office staff:- the General Manager, the executive in charge of machine sales, the executive who was formerly head of the Sales Administration Department, the Assistant to the Chairman, and the Company Secretary.

Minutes of the meetings of the Boards of all these companies were sent to the Head Office, and were filed in the office of the Company Secretary.

4. The Managing Director and the Managing Director's Conference.

The Managing Director, besides being Chairman of the Board, was the chief executive of the company, and was responsible to the Board for all its operations. He dealt with all important questions of policy which were outside the normal routine of the company. He did not directly supervise the chief departments, nor did he attend any of the committees, though he received their minutes. He was responsible rather for the general development of the company, its relationships with other concerns, the negotiation of important contracts, and so forth. He had one assistant who was formerly in the Research Department. This assistant was a member of the Executive Committee. He was, however, responsible directly to the Chairman and assisted him in his functions, especially by doing a certain amount of travelling in his place. The Chairman and his assistant were responsible for keeping touch with the American company, both through personal visits and through periodical letters reporting on the general progress of the X Company. Any important developments, such as a change in the top personnel of the company, or a merger with another company, were referred to the United States Directors for their opinion and sanction. The Managing Director's Conference was an entirely informal meeting called by himself, when he had need of the opinion of any of the other executives in coming to a decision. Its personnel was determined according to the nature of the question in hand. If a decision was reached involving instructions to any department, a formal minute was usually drafted and circulated to those concerned.

5. The General Manager and the General Manager's Conference.

The General Manager reported directly to the Managing Director. He was responsible for all the day to day operations of the company. All the heads of the central office departments, and the Managers of the Branches, reported to him, and in addition part of the Sales Department was under his direct control. He was Chairman of the Executive Committee, and usually acted as Chairman of the

Branch Managers' Convention. All salary increases over £416. or engagements involving salaries of that amount had to be referred to him, or to the Executive Committee. The post of General Manager had only been created two years previously when the Managing Director became Chairman of the Board, as it was felt that it was necessary to relieve him of some of the routine work which he had previously undertaken.

Like the Managing Director's Conference, the General Manager's Conference was informal, its personnel varying with the nature of the subject in hand. Recently, partly as a result of the overcrowding of work in the Executive Committee, there had been a tendency to use this conference to short-circuit the work of the normal committee system, and to make decisions on questions which the General Manager felt would take up too much time if discussed by the Executive Committee in full session. A further informal conference had been started in the year previous to the enquiry under the direct supervision of the General Manager. It appeared of some importance in framing the policies of the company but did not appear on the committee chart. This conference was composed of the Works Manager, the head of the Product Engineering Department, and the Executive in charge of sales of machines. It met at very frequent intervals, but had no formal minutes or secretary in attendance. Its chief function was to determine the programme of production for the ensuing year, and the types of machines to be developed for production in the next few years. It had practically taken over the functions of the former "Types" and "Types Progress" conferences which had become over-congested with business. Much smaller than the Types conference which was one of the formal departmental conferences, it was yet representative of the three important points of view in the consideration of the types of new machines to be manufactured, the Research Department for the technical possibilities, the Production Department on the question of costs of production and existing and potential capacity for production, and the Manager in charge of machine sales who was in close touch with the views of the Branch Managers and whose job it was to find out the type and price range of products most likely to be marketable. This conference had thus on the one hand become responsible for sifting the new ideas with regard to development of new types of machines, which might come in from the management, any part of the sales organization, or the Research Department, and, after consideration of both the technical and commercial possibilities, for the framing of the new production programmes. On the other hand, it formed an important coordinating link for keeping the research and the factory departments in touch and both in constant contact with the commercial point of view. We may note in this instance practical necessity enforcing the development of an embryonic marketing function.*

6. Functions of the Chief Members of the Staff of the Central Office, and of the Executive Committee.

a) The Chief Executives. The functions of the Managing Director and of the General Manager have already been described.

The activities of the Central Office were divided into six main functional departments, one of them under the direct supervision of the General Manager, the other five each under a Departmental Head reporting directly to him:— the Secretary, Controller, Works Manager, and the heads of the "A" Product and Product Engineering Departments. **

The Department in charge of sales administration under the direct supervision of the General Manager, was formerly under a separate department head. This executive was still a member of the staff of the company and acted on certain committees. Nominally he had remained head of the department, but had retired from active management, the other executives in the department reporting directly to the General Manager. The department dealt with the routine of sales and with

* Vide L. Urwick - "The Meaning of Rationalisation" - London, 1929.

** See Appendix II. and Appendix IV.

the general administration of the Branches. Recently appointed as a member of this department was the staff member in charge of machine sales, who had previously been manager of the Z Company. He had been brought to the Central Office and put in charge of the promotion and development of the sales of machines throughout the combination. He acted in an advisory capacity to the General Manager on the general question of the types of new machines to be developed from a sales point of view, and took a share in framing the development policies of the company.

The Secretary, besides being Secretary to the Board of Directors and responsible for all the legal and formal duties of a company secretary, was in charge of one of the main departments of the Central Office. This department dealt on the one hand with the various services of the Central Office which are sometimes known under the head of office management, for example, typing, filing, postal and telephone sections, and the personnel department; and on the other, with the general secretarial and legal work connected with the external relationships of the company, with other companies and with the State, including such questions as copyright of patents, insurance and taxation.

The controller was in charge of all the accounting and financial work carried out at the Central Office, as well as of the costing and statistical and purchasing departments.

The Works Manager was responsible for the entire production of the company. He had charge of the three main central factory departments, of the factories of the Z Company, of the shipping and labour departments, and supervised generally the planning, building and operation of the foreign factories.

The head of a fourth main department (Product "A" Department) was responsible for all the negotiations (with the exception of the actual manufacture), with regard to the production and sales of a certain important accessory of the company's machines. This product, which represented somewhat over 50% of the total sales value of the company's products, was treated separately since it involved certain peculiar technical problems of production, and also separate distribution problems.

The manager in charge of the Product Engineering Department had charge of the research buildings in which the experimental work of the company was carried on, and supervised all research and development work in regard to the technical production problems of the company. His functions included both keeping in touch with general developments in the industry and in the various branches of science affecting it, and also, in collaboration with the production departments working directly on the design and development of new products for manufacture.

b) The Executive Committee. The personnel of the Executive Committee consisted of:— the Managing Director (he was officially Chairman of the Committee, but in practice seldom attended), the General Manager (vice-Chairman), the Controller, the Works Manager, the Company Secretary, the Manager of Product "A" Department, the Assistant to the Managing Director and the head of the Sales Administration Department. The Secretary to the Committee was one of the assistants to the Company Secretary.

In addition to the executive members of the Committee, there were certain members of the staff who had the right to attend its meetings. These were the Manager of the Product Engineering Department, and the Manager in charge of Machine Sales. Other members of the staff were sometimes called in if their opinion was wanted on some special question which was under consideration.

The meetings of the Committee were held weekly on a fixed day and at a fixed hour. Their length varied. Two hours was considered a short meeting. Some

times they became very long and had been known to last all day if specially urgent and important matters had to be decided. The agenda was prepared beforehand by the Secretary and circulated, together with the minutes of other conferences which were brought up for executive sanction, to members before the meetings. The minutes of the Executive Committee were circulated in full to each member, but had to be returned to the Secretary after having been read. Minutes which affected any department or person were sent separately, and for retention, to the persons concerned, as were also minutes which required attention by any member of the staff. Decisions made by the committee were seldom voted. They were decided rather by the consensus of the meeting, and the responsibility for them rested with the Chairman, who might decide a question against the opinion of the Committee if it seemed to him necessary to do so. Where recommendations submitted for approval from one or other of the departmental committee were sanctioned by the Executive Committee, the responsibility for the decision remained with the department head or with the Chairman of the committee concerned.

The Committee was thus a meeting of the heads of departments and of all the chief members of the Central Office staff who were engaged in the routine operations of the company. It acted in an advisory capacity to the General Manager who, with its aid, was responsible for framing all administrative policies bearing on the current business of the company. Being attended by representatives of each of the various functional activities of the business, it both insured that the point of view of each function was represented in the framing of decisions, and also served to keep the department heads in touch with each others' point of view, and with the activities which were going on outside their own departments. It also kept them directly in touch with any changes in the administrative policies of the company as they took place.

The Committee kept touch with the current activities of the other chief departments, through the reports rendered by the departmental committees. Certain questions had to be reserved for its final sanction and those matters which had to receive Board sanction were usually discussed by the Committee beforehand. The Committee had authority to grant capital expenditures over £250. and salaries over £416. per annum. The members of the Committee received recognized status as such, and certain powers. Within their departments, they might authorise expenditure up to £100. and salaries below £260. per annum. (The Works Manager had special powers to authorise salaries up to £360. for the engagement of technical staff at the Central Office).

The Committee dealt annually with such questions as the allocation among the various Branches of the total allotments passed by the Board for advertising and for the production of Product "A". They determined the production programmes every three months on the basis of the figures prepared in the Sales Department and already reviewed by the Joint Sales and Manufacturing Committee. These figures were compared and checked every month with the actual figures of production and sales. They also decided such questions of policy as the prices at which new products should be put on the market. A good deal of their business consisted of matters which were referred to them by the other committees for final sanction, and in this way, besides important questions of policy, a number of really routine matters came up for their decision. Sub-Committees were sometimes appointed to deal with special subjects, and, owing to a tendency for the Committee's work to become congested, a number of questions had been taken out of its hands by the General Manager, and dealt with in smaller conferences, or by his personal decision.

7. The System of Departmental Committees and Conferences.

Besides the Executive Committee, which framed the general operating policies of the company, the system of committees and conferences provided occasion for

the formal meeting of the chief members of the staff in each department to assist in the framing of policies affecting that department alone. Reporting to the Executive Committee there were ten chief Conferences.* These were: Finance, Types, Copyright, Patents, Research, Manufacturing, Sales, Product A., Joint Sales and Manufacturing, and Joint Sales and Product A. The main function of the Finance Committee, besides dealing with questions affecting the department, was to review from a financial point of view, proposals passed up to the Executive by the other committees, which involved any exceptional expenditure. It had certain powers to sanction expenditure, and so relieved the Executive Committee of some of the work it previously had to perform.

The Types and Types Progress conferences were practically defunct. They had previously performed the function of deciding on the new types of machines to be developed for manufacture, and to be put in the sales catalogue, but this work had fallen to the smaller informal conference already described.

The "B" Section, Patents and Research, Manufacturing, Sales and Product A., conferences were all of a functional nature. They served as a formal meeting for the chief members of the staff of these departments, to report on work in progress, and to discuss any proposed changes and developments. The head of the department was Chairman of the Committee and was responsible for action taken as a result of its decisions. The Manufacturing and Sales and the Product A. conferences each had a number of subsidiary committees in the various sections of their departments and also at the Branches, which reported to them through minutes, and in many cases referred to them for final decisions.

The Joint Sales and Manufacturing Committee, and the Joint Sales and Product A. Committee were inter-departmental committees and were formed to deal with problems for which the opinion of the executives of both departments concerned was necessary. They handled a number of questions referred from the departmental conferences concerned, and other matters of common interest.

The conferences and committees varied in their actual importance, and in the frequency and regularity of their meetings. In some cases there were regular meetings every week, or every two weeks, and in others meetings were held only when they were called by the department head for any special purpose. It depended chiefly on the department heads, some of whom regarded the conferences as a useful method of keeping in touch with their staff and of getting their opinions on questions of policy. Others regarded them as an unnecessary waste of time.

Formal minutes were kept of the meetings of all committees. Where it was necessary to refer to a higher authority, or as a means of making a formal record of a decision or of the date of starting a definite piece of work, a minute was sometimes made without any actual meeting of the committee. The minutes were kept in four separate categories. "A" minutes were records of discussions and of departmental business. "B" minutes concerned matters which had to be referred to the Executive Committee for decision. "C" minutes were matters to be referred to the General Manager or Managing Director. "D" minutes, items to be referred to the Finance Committee.

8. Relationships between the Central Administration and the Branches.

a) The Branch Managers' Convention. Various channels by which contact was

* See Appendix III.a.

x Almost invariably salary questions, and tending to fall into disuse

maintained between the Branch and the Central Office administration have already been mentioned. The Branch Manager reported by correspondence and sometimes by personal visit, directly to the General Manager. The other department heads corresponded on matters affecting their particular function with those concerned with this function at the Branches. Contact was kept with the proceedings of the subsidiary Boards by the representation of the Central Office staff on these Boards.

The Branch Managers' Convention provided an opportunity for the meeting together of those engaged in the operation of the various branches of the company to discuss their mutual problems, and also enabled the central administration to keep them in touch with the general development of the combination and to explain the policies of the company to the Branches. Further, it was an occasion for the Branch Managers to mention any difficulties or criticisms arising from the policy of the company, and for the management to obtain their opinion on any special questions of policy affecting them which might be under consideration.

The Convention met twice a year at the Central Office. The Branch Managers were usually present for the inside of a week, formal sessions lasting for three days and the remaining two being left for informal talks with various members of the head office staff.

The Branch Managers sent in beforehand a list of any subjects which they wished to bring up for discussion, and these, together with any business remaining from the last meetings, and any subjects brought forward by the management, were combined into a formal agenda which was circulated to members before the meetings. Minutes were kept and were circulated afterwards to the Heads of Departments at the Central Office and to the Branch Managers.

The membership of the Convention was not limited; all Branch Managers were invited to attend, and they could bring another staff member from the Branch if they wished. There were also present a number of the head office staff, some for the whole Convention and others for occasional meetings. At the Convention held in March 1931 the following were present: The General Manager (in the Chair); the Managing Director, who read an opening address and was present at some of the meetings; the Head of the Product "A" Department; the Executive in charge of Sales of Machines; the Executive in charge (formerly) of Sales Administration; four other members of the staff of the General Manager's Department; the Head of the Overseas Branch; a representative from the "Y" Company and the "Z" Company respectively; two members of the English Branch; and representatives of eleven foreign branches, one branch bringing two members of the staff.

Besides general questions of policy concerned with the current operation of the Branches, the Convention devoted special attention to any questions involving changes either in the relationships between the Branches and the Central Office, or between the Branches themselves, such as the possibility of establishing joint action with regard to production, or to the sales of each others' products.

Some of the subjects appearing in the minutes of two recent conventions give a more concrete idea of the type of question with which the conventions dealt, and of the way in which they operated.

The 1931 Convention was opened by an address from the Managing Director on the subject of the merger which had just been concluded. In addition to the discussions, in the course of the conference, a lecture on advertising was delivered by the Advertising Manager at the Central Office. An address on methods of marketing of a new line of product which the company had recently started manufacturing was also given, in view of the fact that several of the Branches were just entering this field of distribution for

first time. The Manager of the Special Products Branch gave a talk describing the work of his Branch, and how it might be of service to the foreign Branches.

There was a discussion at the 1930 Convention as to the advisability of making a change in the categories of the "A" products produced by the company, the Branch Managers being all in favour of making the change. The matter was submitted to the Product "A" Department, who made a further study of the increase in sales and other factors which would be necessary to justify the change, and after the matter had been discussed at the Joint Sales and Product "A" Conference a report was submitted to the Branch Managers' Convention in 1931 against making the change for a number of given reasons. The matter was discussed again, and it was decided not to make any general change, but that the Branch Managers might make individual suggestions for changes in prices in their territories if they had special reasons for so doing.

At each convention there was a detailed discussion of the new types of machines to be put on the market the next year. It was objected by one of the Branch Managers that they were not sufficiently consulted as to the sales possibilities in this matter. It was decided that in future the Branch Managers should keep the Head Office in touch with the new products brought out by competitors and with any changes in local conditions affecting types. A letter should be sent by the Head Office to the Branch Managers in September of each year asking for proposals for new types of machines to be released by July of the next year.

Various selling questions were discussed, such as the commissions paid to dealers, policy with regard to the return of unsaleable goods and the use of retail shops. Certain Branch Managers reported on local experiments with house-to-house canvassing and other new sales methods.

There was a discussion as to the possibility of selling the products of certain Branch factories in the territories of other Branches. Arising out of this, it appeared that some of the Managers were uncertain whether they were allowed to correspond directly with one another as to their sales. They were informed that there was no objection to the exchange of information between Branches, provided the Central Office received a copy of the correspondence.

A discussion was raised on the question of methods of fixing prices of instruments. It had been decided at the 1930 Convention to make a change in the former system of fixing prices. Instead of prices being laid down by the Head Office, the Branch Managers were to suggest their own selling prices for new goods as soon as they were in possession of their landed costs. Certain managers objected that it would save time and trouble if the Head Office first stated the lowest possible selling prices which could be economically fixed, and after some discussion it was agreed to do so in the case of those Managers who had asked for it but not for the majority of the Branch Managers who preferred the existing system.

The Convention was informed that provision had been made to send to all Branch Managers in the future a monthly report of the progress on technical inventions and to give an idea of their application and value in actual commercial practice.

The Branch Managers gave particulars of the arrangements they had instituted in their territories for the servicing of certain products. They were informed that the Management were prepared to loan each of them in turn an expert on the subject, and that his assistance would be available when required.

b) Reports rendered by the Branches to the Central Office. The system of control exercised by the central administration over the Branches included a series of written reports sent in at regular intervals to various depart-

ments of the central office.

At the time of the enquiry these reports were undergoing certain changes. Partly with a view to effecting economies and partly in accordance with the decentralization policy of the company, an investigation was being made with a view to reducing the number of reports and simplifying the information contained in them. The Controller's Department had made a collection of the various forms used by the Branches in making reports to any of the central office departments, and proposals for certain alterations and changes were being considered. Copies of the minutes of all subsidiary Boards were sent to the Secretarial Department of the Central Office and were filed there. Minutes of other conferences at the Branches which required any central office sanction were sent in to the Department or Committee concerned.

In addition, certain central departments received statistical information from the Branches at fixed intervals. For example, the Central Foreign Factories Department received a monthly report from all the foreign factories giving figures of production, shipments and outstanding orders in all departments and of stocks on hand. Reports were also received showing the efficiency of certain key factory departments, for comparative purposes.

The majority of the reports from the Branches were sent in to the Central Statistical Department to whom the other departments could apply for information. A summary of sales of each branch was received twice a week, and the figures in categories of products were cabled each month. A trading report and other reports giving fuller details of the sales and returns of each product, of cash received, of bills receivable, and of bank balances, were sent in every month. There was also a detailed monthly estimate of cash requirements for the ensuing month. Formerly a report had been submitted showing the number of employees at each branch and the salaries paid, but this had been cancelled. A six-monthly report giving details of the retail and dealers' prices of the various categories of products, showing cost at the factory, cost of freight, etc., and total branch costs, had also been required. In all, the Statistical Department had formerly received some 16 separate reports giving information as to the distributive and financial side of the business of the Branches, but these had been reduced to a certain extent. From these figures the Department compiled the sales and financial statistics for the Board, and a monthly comparative report on sales which was circulated to the members of the Executive Committee.

Of the other departments of the Central Office the Controller's Department used to receive reports on staff salaries and wages, on stocks of goods, a six-monthly forecast of collections and requirements, and an analysis of overdue accounts. Profit and Loss Accounts, and cost figures were sent in to the Accounts Department; and to the Pensions Department a card for each male employee over 21, giving names, ages and salary.

The Royalties Section of the Accounts Department received reports on the sales of those products which were subject to royalty from which the royalty statements were made up. The Produce "A" Department received figures of the production, and expenditure on the various categories of Produce "A".

The General Manager's Department required reports on the proposed deletions of products from the catalogue of each branch, and a monthly general report describing the state of trade in the territory, the general progress of the Branch, and any special local developments affecting the industry. From these returns, and a monthly summary of sales by value and kinds of products in each territory, compared with the two previous years compiled by the Statistical Department, a short report on the sales situation in each Branch and of the apparent reasons for any changes, was made up every month for the General Manager.

In all, some 90 separate reports were formerly being sent in regularly from each Branch to the Central Office. Many of these were found to contain over-

lapping and, in some cases, unnecessary information. It was decided to reduce their numbers by cancelling some, and in other cases amalgamating the information previously contained in several separate reports. After this consolidation there were only about 24 separate reports.

IV. THE EXECUTIVE ORGANIZATION OF THE COMBINATION.

A. THE CENTRAL OFFICE.

The organization of the X Company thus provided for a highly centralized control over the policies of the whole combination. There were various influences at work tending to modify this administrative centralization.

The Central Office besides being concerned with the general coordination of the combination and the administrative supervision of the Branches and Subsidiaries, was responsible for the operation of the central factories, and of the technical research work carried on by the company. The total staff employed in the central offices at the end of March 1931 numbered 1,463.

The office was divided into six main departments which were separated from each other on lines of functional activity. The organization of these main departments and sections and the numbers of the staff in each is shown in the Chart (Appendix IV). Their functions were as follows:-

1. General Manager's Department. (Staff 22).

This Department was responsible for the general supervision of the Branches on all questions of administration, and also for distribution to the selling branches and subsidiaries of the chief lines of products manufactured by the company, with the exception of the "A" products. Reporting directly to this department was:

- a. The Overseas Branch (staff 18) which dealt with sales to all those territories where the company was selling through independent distributors instead of through Branches or Subsidiary Companies.
- b. The Special Products Branch (staff 51) which was responsible for the production and sales of certain products for which there was a small and specialized demand and which had to be adapted to each particular case instead of being manufactured on a mass production basis.

2. The Secretarial Department. (Staff 93).

This department was divided into the following sections:

- a. Secretary's Section (staff 5) which dealt with the formal work of the Company Secretary, with the minutes and agenda of meetings of the Board and certain committees, arrangements for general meetings, correspondence with shareholders, compliance with the legal requirements in respect of registration of companies, etc.
- b. "B" Section (Staff 15) which advised on specialized questions of law relating to certain of the company's products, and conducted all negotiations with other companies and associations in this matter.
- c. Legal Section (staff 3) which dealt with part of the legal work of the company. Part was done through an independent firm of solicitors.
- d. Patent Section (staff 5). This section acted as advisory to executives and to other departments and Branches on all questions connected with patents, and was responsible for a considerable part of the routine work

in connection with patents owned by the company and with patents for which they held licenses, the rest of the work being undertaken by an outside firm of patent agents.

- e. Transfer Section (staff 6) dealt with transfers of stock.
- f. Personnel (staff 2), a specialist department formed to help coordinate the personnel work done in the other departments.
- g. The Filing Section (staff 19).
- h. The Postal Section (staff 7).
- k. The Telephone Section (staff 8).
- l. The Typists Pool (staff 22), all engaged in providing services for other departments of the head office.

3. The Controller's Department (Staff 200). This Department was divided into the following sections:-

- a. Finance - Cashiers, Salaries, Pensions, Insurance (staff 14).
- b. Accounts Control (staff 11). This section was engaged in reviewing the accounting and costing methods used throughout the combination and trying to introduce greater uniformity.
- c. Counting House (staff 41).
- d. Retail Shops Accounts (staff 3).
- e. Cost (staff 48). Works out costs of products of chief factories.
- f. Systems (staff 3).
- g. Rotaprint (staff 2).
- h. Hollerith (staff 9). This section was engaged in operating Hollerith machines which had been recently introduced into the company for dealing with sales and royalty statistics.
- k. Statistical (staff 9) concerned chiefly with reports on sales and finance made up for the central administration from reports received from the Branches and factories.
- l. Royalties (staff 19) dealt with the estimates and payments of royalties to which certain of the company's products were liable.
- m. Purchasing (staff 42). This section dealt with all purchasing for the Central Office and the Central Factories, and supervised the purchasing departments at the Branches.

4. Works Manager's Department (staff 787).

This department was responsible for all production work carried on at the central factories and for the supervision of all the other factories. Its activities were carried out through the following sections:-

- a. Works Manager's Department (staff 10) - general supervision of production, and study of production development.
- b, c, & d. Sections in charge of each of the three main central factories. (staff respectively, 247, 86, 82).

- e. Shipping Section, in charge of shipments of all products to the Branches for distribution (staff 58).
- f. Power, Construction and Maintenance Section (staff 72).
- g. General (staff 177), included canteens and various other services to the factory departments.
- h. Managers' Canteen (staff 8).
- k. Clean and Watch Section (staff 17).
- l. Foreign Factories Section (staff 19), which dealt with the correspondence with the foreign factories, the general supervision of their operations, and with the training of staff for them.
- m. The Planning Section, which was chiefly concerned with factory building and extension, and with the general layout of factory buildings at home and abroad.

5. Product "A" Department (staff 71).

This Department was divided into three sections each of which reported to the Department Head who was a member of the Executive Committee. The Department was in charge of all negotiations connected with the production and sale of the "A" products which were accessory to the main line of machines produced by the company, with the exception of the actual process of manufacture which was supervised by the Production Department. The "A" products for the English Branch, and certain of them for all the other branches, were made at the central factories. For technical reasons there were differences in this product in different countries, and it was therefore produced in some degree at each of the Branches engaged in manufacture. The central department, however, exercised a general supervision over the types, categories and prices of these products which were produced locally, and the expenditure on this class of production. It also kept the Branches in touch with the latest developments in regard to manufacturing methods.

6. Product Engineering Department (staff 212).

This department was divided into the following sections:-

- a. Engineering.
- b. Production Design.
- c. Research.
- d. Chemical Engineering.
- e. Administration.
- f. Progress.

It was responsible for all the experimental work carried on by the company into the technical problems of production, and for the design and development of new products. While doing a certain amount of research work into scientific developments which might be of service in the future to the company's production, the department did not engage in "pure" scientific research. It was responsible however for keeping touch with scientific developments occurring in the outside world which might affect the development of the industry, and with the progress of other firms and institutions engaged in research within the industry itself.

B. THE MAIN BUSINESS FUNCTIONS.

To obtain a more concrete view of the executive activities of the combination as a whole each of the main functions was examined from the point of view of the following questions. Where were the various operating units within the combination belonging to this function located? Who was the chief executive officer responsible for this function, and to whom was he responsible? Was the function centralized or did the central office advise the constituent units with regard to this function or coordinate their methods? What arrangements were there for coordinating the work of this function with that of other functions within the combination?

1. Production.

a) Manufacture. Those units of the combination which were engaged in manufacturing were:

- i. The central factory.
- ii. Another factory in England (previously owned by the Z Company).
- iii. Seven factories in foreign countries.

The two English associated companies and one of the foreign associated companies also engaged in some form of manufacturing. The two home factories were in charge of the Works Manager who was responsible for their activities to the General Manager. The managers of the foreign factories reported to their local Branch Managers, though in regard to all technical questions they were closely controlled by the Foreign Factories Department of the Central Office, which reported to the Works Manager. This Department was also responsible for the selection and training of the managers for the foreign factories. This close control by the Central Production Department did not apply in the same degree to the manufacturing activities of the associated companies.

Coordination with other functions was effected through the Joint Sales and Manufacturing Committees, and the Executive Committee of which the Works Manager was a member. There were conferences on various problems of manufacture at the home and foreign factories which reported to the Central Manufacturing Conferences.

b) Design - Manufacturing Methods. Designs for new products were worked out entirely at the Central Office, though the Branch Managers were allowed to make suggestions. Designs were worked out as between the Product Engineering and the Production Departments. When the new product was completed and approved for production at the central plant, the designs were sent to the foreign factories to be used by them. Manufacturing methods were also highly standardized. There was a committee of three at the Central Office - the Works Manager, the Head of the Product Engineering Department, and the Manager in charge of Machine Sales, which was responsible for supervising the design of new products, and through which the activities of these three departments were coordinated in regard to this function.

c) Factory Planning and Development. There was a Planning Department at the Central Office which was in charge of the building of new factories or the extension of existing plant. In regard to this function, the factories were closely controlled by the central department. This Department, which reported to the Works Manager, served both the home and foreign factories. The function had been carried on entirely from the centre in the past, but was becoming somewhat more decentralized. The decision to build a new factory for example, was made at the Central Office. Based on the past sales and future expectations of the Branch, the productive capacity

required was determined, and the Planning Department, on standard formulas based on experience in the other factories, estimated the floor area and machinery required and the expense of the job. Once the estimates were passed by the Manufacturing and Executive Committees, the Planning Department sent out a representative who made arrangements with local architect and builders, the types of building and the layout being as nearly as possible a replica of existing factories. The Planning Department supervised the job throughout. The tendency was developing to make the information in the hands of the Central Department available to the Branch Managers and to allow them to make their own plans for developments and to budget the cost. The final decision remained however in the hands of the Executive Committee.

d) Labour. The provision of labour for the various parts of the central factory was in charge of a single department reporting to Manager in charge of Instrument Production. Labour for the foreign factories was hired locally by the Factory Manager. There was no attempt at standardization of wages or working conditions.

e) Transport. The Traffic Department at the Central Office dealt with shipments to the central factories, and from the central factories to the Branches. It reported to the Manager in charge of Instrument Production. There was no central control over the transport problems of the Branches.

f) Purchasing. The Purchasing Department at the Central Office was under a Purchasing Controller who reported to the Controller. The department was responsible for all purchasing for the central plant and offices; the materials with which it dealt were divided into three classes:-

- i. Production Material.
- ii. General Stores Material.
- iii. Plant and Power Engineering Material.

The branches each had their own purchasing departments, but these were closely supervised by the central department, especially in regard to the production materials. While the local departments actually placed the contracts, the decisions as to the types of materials to be purchased and the sources of supply were usually made by the central department, though the local managers were sometimes given more independence if they had special knowledge or if there were any special local sources of supply available.

2. Distribution.

a) Selling. Besides the distributive organization for the X Company's main products, the combination operated two separate organizations for the sale of certain other of its products. The Y Company sold under its own trade marks through wholesale factors and jobbers an article somewhat inferior in quality and cheaper in price than the main lines produced by the combination. The Z Company sold its own products under its own trade names direct to dealers in the United Kingdom and in some cases through the Branches of the X Company abroad. The units of the combination concerned with the sales of the X Company's main products were two departments of the central office:

- i. The General Manager's Department. This supervised the operations of the selling branches and was responsible for the routine of sales from the central factories to the branches. It also controlled the Special Products Branch and the Overseas Branch.

11. The Product "A" Department which was responsible for supervision and advice in regard to the sales of this accessory throughout the combination.

The Central Office did not distribute directly to dealers or retailers, but only to the various Branches of the company. In England there was a Head Office Branch with separate offices from the parent company, which sold through retail shops and to dealers. The foreign branches and subsidiary associated and allied companies were each responsible for sales in their own areas, usually through dealers, and in some cases through the operation of retail stores. Sales to foreign countries where there was not enough business, or, for other reasons, it was thought inadvisable to start a local Branch, were all in the hands of the Overseas Branch which had its offices at the head office building. Its accounting and statistical work was done by the head office departments, but it was officially an independent branch. All orders from the distributors in these areas came through the Branch which was also responsible for making out sales forecasts for the territories it covered.

Formerly one executive had been in charge of the Sales Administration Department. But he was approaching retirement and had given up most of the executive work, though remaining a member of the Executive Committee. This Department was reporting direct to the General Manager. There were four chief members of its staff:

- i. An executive who exercised special supervision over the sales of machines and was responsible rather for sales development and sales policies than for routine matters.
- ii. An assistant to the General Manager who dealt with general matters of policy with the Branch Managers.
- iii. & iv. Two officials each responsible for the routine of sales and for correspondence with a certain number of Branches.

The Branch Managers responsible for sales at the Branches, and the Manager of the Product "A" Department, responsible for general supervision of sales for this product, also reported to the General Manager.

The actual operation of the sales function was thus decentralized, but at the same time a good deal of central control was exercised over the activities of the Branch Managers by the two central departments concerned with sales. For example, retail prices had to be approved by the central office. The Branch Managers could not undertake any new operation involving a capital expenditure of over £25, or make any important change in methods of distribution without the sanction of the General Manager.

There were Management Conferences at the Z Company and seven of the Branches, composed of the two or three chief officials of the Branch, which dealt chiefly with questions concerning distribution. These reported through their minutes to the Sales Conference at the Central Office. The annual Branch Managers' Convention was used largely for discussion of methods of distribution, and for comparison of ideas and methods as amongst the various managers of the Branches, and certain of the central office officials, more especially those concerned with distribution. Coordination between the Sales and other functions at the Central Office was effected through three other committees - the Joint Sales and Manufacturing Committee, the Joint Sales and Product "A" Committee, and the Executive Committee. Monthly reports on the general

conditions in each territory (see p. 24) were sent in by the Branch Managers and together with the reports of sales obtained from the Statistical Department (these statistics were obtained from the daily sheets of orders made up in the factory, and calculated on Hollerith machines), a summary of the position in each Branch was made up for the General Manager. In addition, each Branch sent in an estimate of sales for the ensuing nine months, every three months, to the General Manager's Department. There the estimates were coordinated and revised in accordance with the department's opinion as to the state of trade at the moment, and with their experience of the usual accuracy of the estimates of each Branch Manager. The revised estimates were submitted to the Joint Sales and Manufacturing Committee, and the production programme was based on them. The estimates were reviewed and revised every month by the Committee, in accordance with the figures of actual production, sales, and stocks, and with the corresponding figures from the foreign factories. The estimates for the overseas Branches were made up by the Branch Manager, and based chiefly on past sales figures and on monthly reports on general trade conditions in each territory received from the company's Bankers.

b) Advertising. Each Branch engaged in distribution had its own advertising department. There was one official, with the title of Advertising Controller, who was responsible for advising as to the advertising of the various Branches, and for making suggestions as to new methods, types of display, etc. He was also responsible for a certain amount of advertising material which was put out by the Central Office and which could be adapted and used by the Branch Managers if they wished. In addition to these coordinative activities which had only recently been developed, this official was head of the advertising department of the English Branch, though he was officially a member of the Head Office staff. With regard to the other Branches, he had only advisory powers, the Branch Managers being left free in determining their own advertising methods, within the limits of the expenditure allotted to them for this purpose every year.

The Product "A" Department also had a share in the control of the advertising of the Branches, since it was responsible for reviewing the budgets for advertising. The method of control of expenditure both on advertising and also on the production of Product "A" was as follows: Every year, each Branch sent in an estimate of requirements for the ensuing year for these two activities. These were examined in the Product "A" Department, and estimated as a percentage of sales for the past year. A report, showing the comparative amounts, and the amounts as percentages of sales for each Branch was made up and presented to the Joint Sales and Product "A" Committee, who reviewed each estimate and passed it on with recommendations to the Finance and Executive Committees. The total estimate which had been made by the Executive Committee on the basis of these primary estimates, was passed to the Board for approval. From the total allotment made by the Board, the Executive Committee distributed the allotments for each Branch. The funds were, however, only passed to the Branch Managers every three months, so that if necessary the amounts could be revised during the year.

3. Finance.

a) Accounting and Statistical Costing. Each Branch had its own accounting department responsible to the Branch Manager, and in charge of all the accounting of the Branch. The Controller's Department at the Head Office was responsible for final accounting, and for the accounts of the Head Office. A progressive monthly profit and loss statement was sent in by each Branch every month. In 1927 an Accounts Control Department was started to study the accounting systems of the Branches and subsidiaries so as to try and get more accurate systems for costing purposes, and also more uniformity. The Central Costing and Statistical Departments also

reported to the Controller. The work of these departments was largely centralized. The introduction of Hollerith machines opened up the possibility of even further centralization of statistical calculation, but their full potentialities had not been developed at the date of the enquiry.

Every six months a forecast of financial receipts and requirements was sent in by each of the Branches, and each month an estimate of cash needed for the ensuing month was submitted, the position of the whole company being reviewed by the Board, and allowances made accordingly.

The Finance Committee, which had been started in 1921, acted as a clearing-house for matters which came up in the other departmental committees, and which required financial sanction. The committee had powers to sanction capital expenditure up to £250. and salaries of under £416. per annum.

b) Auditing. Auditing was carried out through an outside firm of auditors whose foreign branches, or representatives in the countries concerned, were also responsible for auditing the accounts of the subsidiaries and branches.

4. General Management.

a) Personnel. The appointment of staff and the fixing of wages, salaries and working conditions, was still to a great extent decentralized, and even departmentalized in this combination. With the exception of the Branch and Factory Managers, who were appointed by the General Manager, staff appointments at the Branches were filled locally, though all engagements involving salaries over £260. had to receive the sanction of the Central Office. In addition, a list of proposed salary increases was sent in by each Branch every year and reviewed by the Personnel and General Manager's Departments. At the Central Office there was a personnel department, the Manager of which reported to the Company Secretary, who in turn was responsible to the General Manager and was a member of the Executive Committee. The Department had only been started in 1929. Previously each department head had been responsible for staffing his own department. The tradition of departmentalism in this respect persisted at the time of the enquiry. While the Personnel Department maintained contact with sources of supply of staff, advertised when necessary, and made the first selection from applicants, the final choice usually lay with the Department Head. The Heads of Departments (who are also members of the Executive Committee) were authorized to grant salaries up to £260. per annum; above this they had to be referred to the General Manager. Salaries paid varied somewhat in the different departments, there being no uniform grading of jobs. The Central Personnel Department were, however, responsible for the general coordination of personnel activities in the Head Office. They supervised schemes of training, such as lectures for the staff, and assisted members of the staff who wished to take commercial courses. They also kept a transfer list of employees, and waiting lists of applicants.

Supervisory staffs for the foreign factories were hired by the Central Foreign Factories Department (assisted by the Personnel Department), trained at the central plant, and sent out as required. (see p. 9.).

b) Patents. There was a small patent department at the Head Office reporting to the Company Secretary. It was started three years before the enquiry. Previously the company's patent work was all done by a firm of patent agents. One of the foreign subsidiaries, in a country where the patent position presents special difficulties, had its own patent department. Even in this case the activities of the department were closely controlled from the Central Office. In the case of the other Branches

the Branch Managers sometimes had to carry out negotiations for the use of certain patents in their territories, but only when acting on the instructions of the Central Office. They also had to look out for any infringements of the company's patents in their territories and report them to the Head Office who advised on the action to be taken. Similarly the Head Office were sometimes on the look-out for suspected infringements by certain special competitors, and made inquiries through the Branch Managers. Important contracts in regard to patents held by other companies were generally negotiated by the Managing Director, though it was the work of the Patent Department to make the preparatory investigations. The department was also responsible for dealing with the licenses for patents held by the company, and for such matters as dealing with offers from inventors, cooperating with the Product Engineering Department in looking into the scientific possibilities of new patents, acting in a general advisory capacity to the other departments and to the Branches in regard to patents, and linking up with the work of the company's Patent Agent.

A good deal of the company's patent work was still done through the Patent Agent. He kept the registers of the company's patents, and usually did the work of search in regard to new patents and of registration both at home and, through his representatives, abroad. Patents were generally taken out in the name of the parent company in all territories, except in those cases where they did not wish it to be known that a foreign subsidiary was under their control - when the patents were sometimes registered in the name of the subsidiary.

The Patents Conference coordinated the patent work of the company. Its Chairman was the Company Secretary, who was responsible for its decisions; the Patent Agent usually attended and the department was represented. It decided all questions of minor importance, other matters having to be referred to the Executive Committee. (see Appendix III).

c) Legal. The major legal work of the combination was centralized. There was a small legal department at the Head Office, which dealt with a certain number of the minor legal questions, such as the drafting of contracts with employees, purchase of land, etc. Litigation, and most matters which involved important questions of policy, were carried out by an independent firm of solicitors, one member of which was on the Board. For legal advice or action abroad such as the formation of a foreign company, the company generally acted directly through local lawyers. None of the Branches had a legal department of its own, but when necessary they acted through independent firms of lawyers, and generally on the advice of the Central Office.

5. Research.

The research work of the combination was carried out through the Product Engineering Department of the Central Office. This Department was started in 1923 and had since grown very rapidly. It was started primarily with the object of adapting for the use of the company, two important American inventions which showed promise of revolutionizing the industry from the technical point of view. Subsequently the Department started research into a number of other problems of production and design. In 1928 the research building was begun, and was finally completed early in 1930. In the two following years the Department had grown through the absorption of certain sections of the factory, such as the chemical research department and certain of the design departments, and the taking over of the experimental department of the Z Company. Part of the design work had been subsequently handed back to the factory departments, as it was decided that the general

design of types of machines could well be carried out in the Product Engineering Department, but the detail of tool design, etc., was better done in close cooperation with the actual processes of manufacture. Projects undertaken by the department were of two types - those involving work directly on new products which had to be developed for manufacture at a certain date, and those concerned rather with developments which might possibly be of use in the company's products at some later stage. The department was responsible for keeping in touch with the general technical progress of the industry, and of competitors, and with any general scientific developments which might be liable to affect the industry in the future.

The Head of the Product Engineering Department was responsible to the General Manager. He had the right to attend the meetings of the Executive Committee, but was not a member.

Within the X Company, the Product Engineering Department was centralized, that is to say, the Branches and subsidiaries had no research organizations of their own, but looked entirely to the Central Department for the development of new products and processes. The American Company, which controlled the X Company financially, had a large research organization of its own, and between these two departments there was theoretically a completely free exchange of information. This took the form of the exchange of monthly general reports on progress, and the American company sometimes sent over detailed accounts of processes, of progress of experiments and the like. Further, when staff members of either company visited the other, they were shown over the work of the research departments with complete freedom. The department had not found, on the whole, that written correspondence as to experiments, etc., was of very great value, but they had obtained considerable benefit through the opportunity of studying the methods of the American company, during visits to the States.

In the past there had not been much contact between the department and the Branch Managers, but, in accordance with the changes in policy which have already been noted, the department at the time of the enquiry was giving more information to Branch Managers than had formerly been the case. There was a Technical Publications Section in the Department which was originally started to deal with various matters which were overcrowding other sections, such as the preparation of lectures given to outside associations, the sorting and analysing of technical publications and other information sent in to the company, and the preparation of instruction books for the Sales Department. This Department had become a channel for communication with the Branches on technical matters. (Vide p.15).

A departmental budget was made up every six months by the Product Engineering Department, and referred to the Executive Committee and to the Board who determined the allotment for this department for the ensuing six months.

This function was coordinated with other functions through the Executive Committee to which the Product Engineering Conference reported and which the Manager of the Department sometimes attended, and through a small informal Conference consisting of - the Works Manager, the Manager in charge of Machine Sales, and the Manager of the Product Engineering Department. This Committee reported to the General Manager and was mainly responsible for the development of the new line of products to be programmed for manufacture each year.

V. CONCLUSION.

It has not been possible in a short account to give details of the routine operations of the combination or more than a very general idea of many of its problems and policies. But emphasis has been placed on that part of its operations which presents problems similar to those of almost any other combination - namely, its organization.

It is not advisable, even if it were possible, to draw conclusions in regard to general principles on the basis of a single example. But it is of value to consider one or two points in this organization which appear to be of special interest, or which tend to substantiate conclusions already tentatively established with regard to combination administration.

The picture presented is a manufacturing concern, built up in the last thirty years to a predominant place in an industry which in itself is new and expanding. Actually controlled by American capital, the undertaking has been left almost complete freedom in the direction of its own policies.

It has had a remarkably steady record of successful operation. This success is doubtless due in part to the fact that it is engaged in the production of articles for which there has been a constantly increasing demand. It has, however, had to face many of the difficulties typical of new industries, including competition, and the fact that small firms have constantly been started under-cutting the prices of the established businesses and frequently going out of business very shortly. The success of the X Company has been due largely to its steadily maintained reputation for the good quality of its products.

One of the most striking points about the organization, is the extremely high degree of centralization of policy which the company has both thought it advisable, and has also been able to maintain, despite the fact that the Branch Managers were in many cases very competent, and had been in the service for a long period.

In the preliminary report published by the Institute on this subject, emphasis was laid on the difficulty of maintaining a right balance of centralization and decentralization as between the Central Office and the constituent units. It was also suggested that many combinations are to be found in a state of changing organization, the changes being either in the direction of greater or less centralization. * It is interesting to find that this combination bears out this generalization. In this case, a combination which had been built up by a process of spreading outwards from a central point, had followed the policy of keeping a close control over the newly established Branches, had then found it essential to delegate a greater degree of responsibility to the Branches, both because of the increase in the size of the combination, and also for technical, national and many other reasons.

Another interesting change from an organization point of view, and one which perhaps also marked a stage in the growth of the combination, was the splitting up of the functions of the chief executive, by the appointment of a General Manager as well as a Managing Director. The resulting situation seems to have been somewhat analogous to the distinction made in many American combinations between the duties of the President and those of a wholetime Chairman of the Board. The Managing Director was responsible for main questions of policy and especially for negotiations outside the company, and for development policies, the General Manager for the supervision of all the current operations of the company.

* "Administration and Management of Business Combinations - Preliminary Report" - International Management Institute, S.R.20.C.2. Geneva 1932.

The extensive use of committees in this organization is another point which cannot fail to strike the observer. The mere number of the committees is in itself unusual; and it is an interesting feature of organization that the minutes of departmental committees were used as a record of decisions and of activities, as a means of reporting the activities of the department to the executives in charge of the other chief functions, and to communicate decisions to those who had to act on them. How far the committees were of real importance for discussion and for the framing of policies, and how far the system as such was found to work satisfactorily, it was extremely difficult to determine. Probably the value of the system varied greatly as between the different committees, some really existing only on paper while others were of considerable practical importance. The system was freed of the danger of divided responsibility by the fact that the Chairman of each Committee was responsible for decisions. This also meant that the degree to which the Committee was consulted was largely the choice of the individual Chairman. It appeared that the system had tended to throw too much work onto the Executive Committee. Significant in this respect was the short-circuiting of the work of the Committee by the individual action of the General Manager, and by informal conferences. How far this represented a fault inherent in the system, and how far it was due to a failure to allow adequate responsibility to the Heads of Departments acting in their own departmental committees and to the Branch Managers, it is impossible to say.

From the point of view of combination organization, the Branch Managers' Convention was an interesting experiment which seems to have proved itself of value both from the point of view of the Branches, and of the Central Office. With increasing decentralization it might well prove of even greater assistance in providing an opportunity to the Branch Managers to compare experience, and as a coordinative link with the Central Office.

Trends in the general development of business reflect themselves in the organization of the individual concern. In this combination, as in many others engaged in production of machines of various kinds, factors such as the increasing importance of research, and of the technical aspects of the business have affected development. Hence the necessity of giving salesmen more technical training, and on the other hand, the necessity of studying consumer demand in quality and style of product. Such tendencies had resulted in changes in the importance of various parts of the organization without necessarily affecting the main principles on which it had been built up.

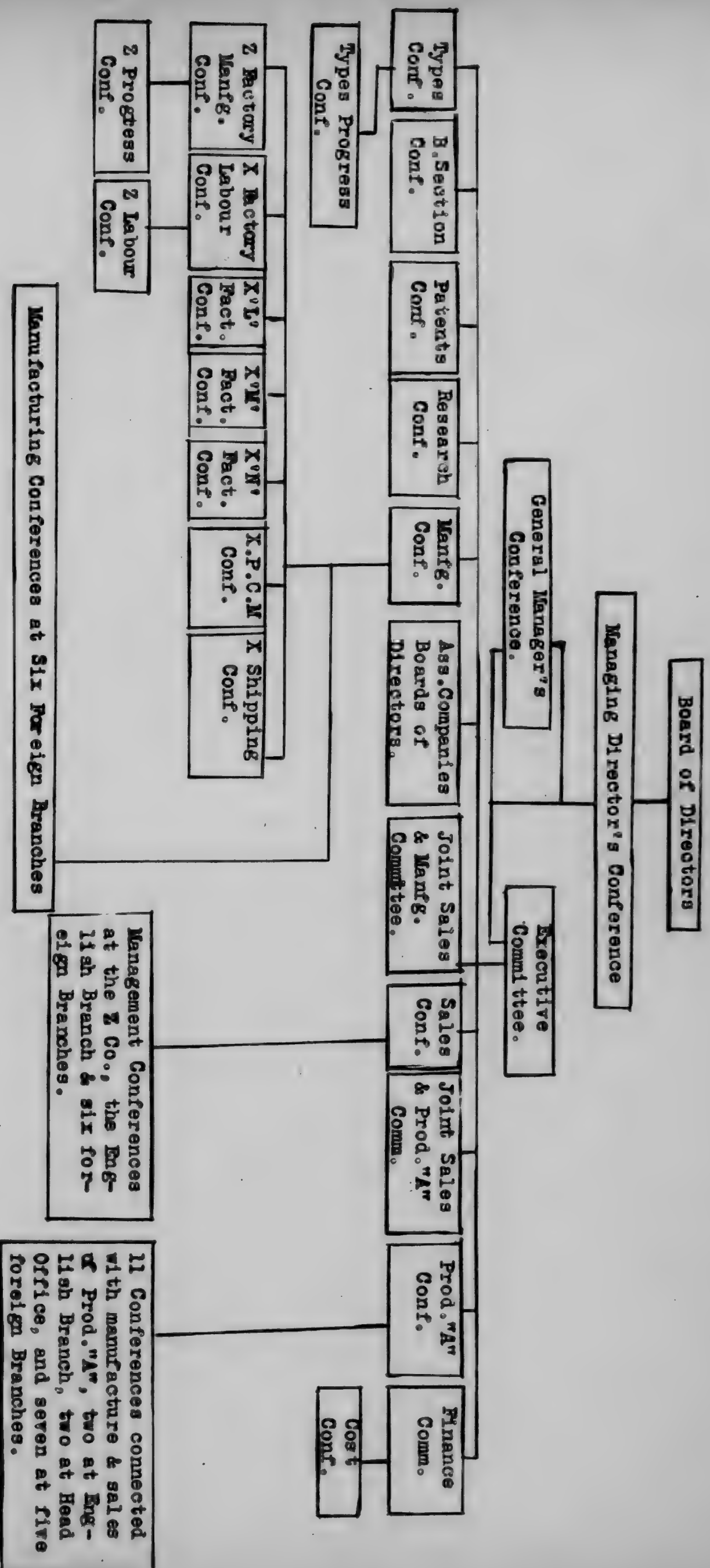
THE X COMPANY, LTD. - FINANCIAL RESULTS.

To Year ended:-	Profit.	Dividend Bonus Balance Un-	Ord.Share	Bonus on
	L.	on Ord.Shares. appropriated.	Dividend %	Ord.Shares %
	L.	L.	L.	
June 30, 1901	79,384	22,500	31,844	6
1902	137,268	30,000	98,256	6
1903	252,285	47,500	260,821	6
1904	211,750	100,000	414,832	10
1905	140,229	100,000	445,297	10
1906	212,237	100,000	534,677	10
1907	263,951	125,000	657,915	15
1908	144,125	150,000	644,627	15
1909	58,804	125,000	566,313	15
1910	155,628	25,000	679,135	5
1911	184,749	100,000	268,736	10
1912	156,469	100,000	314,695	10
1913	100,854	100,000	30,073	10
1914	138,186	50,000	39,427	10
1915	16,772	-	14,249	-
1916	181,101	-	72,506	10
1917	168,315	50,000	-	10
1918	218,750	50,000	163,804	10
1919	145,398	75,000	153,402	10
1920	150,962	112,500	152,564	10
1921	26,119	112,500	128,453	6
1922	140,307	45,000	166,555	15
1923	283,769	112,500	289,738	15
1924	229,646	163,500	316,375	15
1925	294,294	163,500	413,961	20
1926	338,008	218,000	500,611	20
1927	780,555	299,750	948,077	20 + 7 1/2% Interim
1928	1,132,414	474,119	1,033,647	32 + 10% "
1929	1,200,913	676,029	1,285,440	45 + 10% "
1930	879,741	845,096	1,399,371	50 + 5% "

The X Company, Ltd.

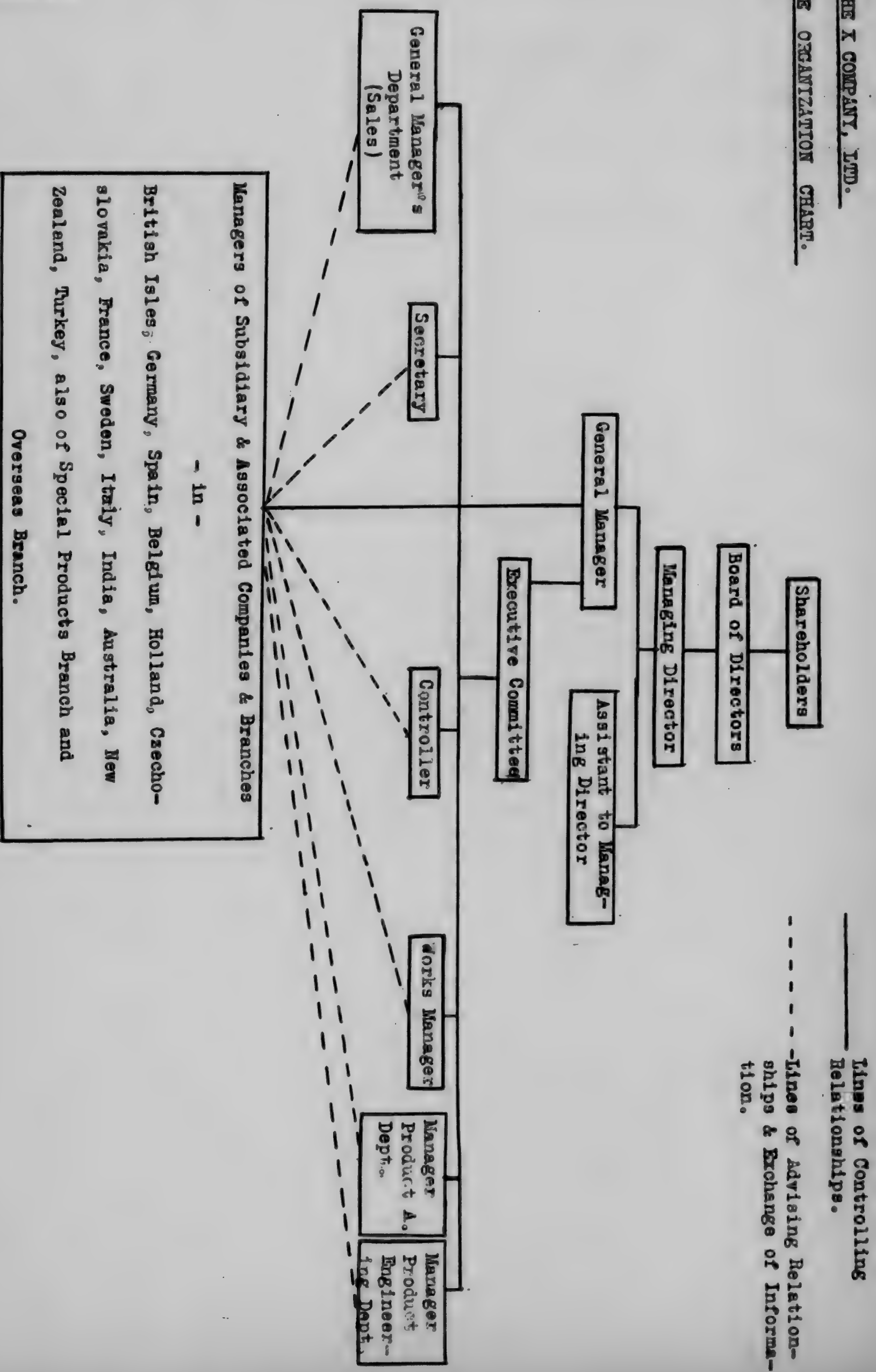
Committees and Conferences.

Appendix IIIa.



THE X COMPANY, LTD.

OUTLINE ORGANIZATION CHART.

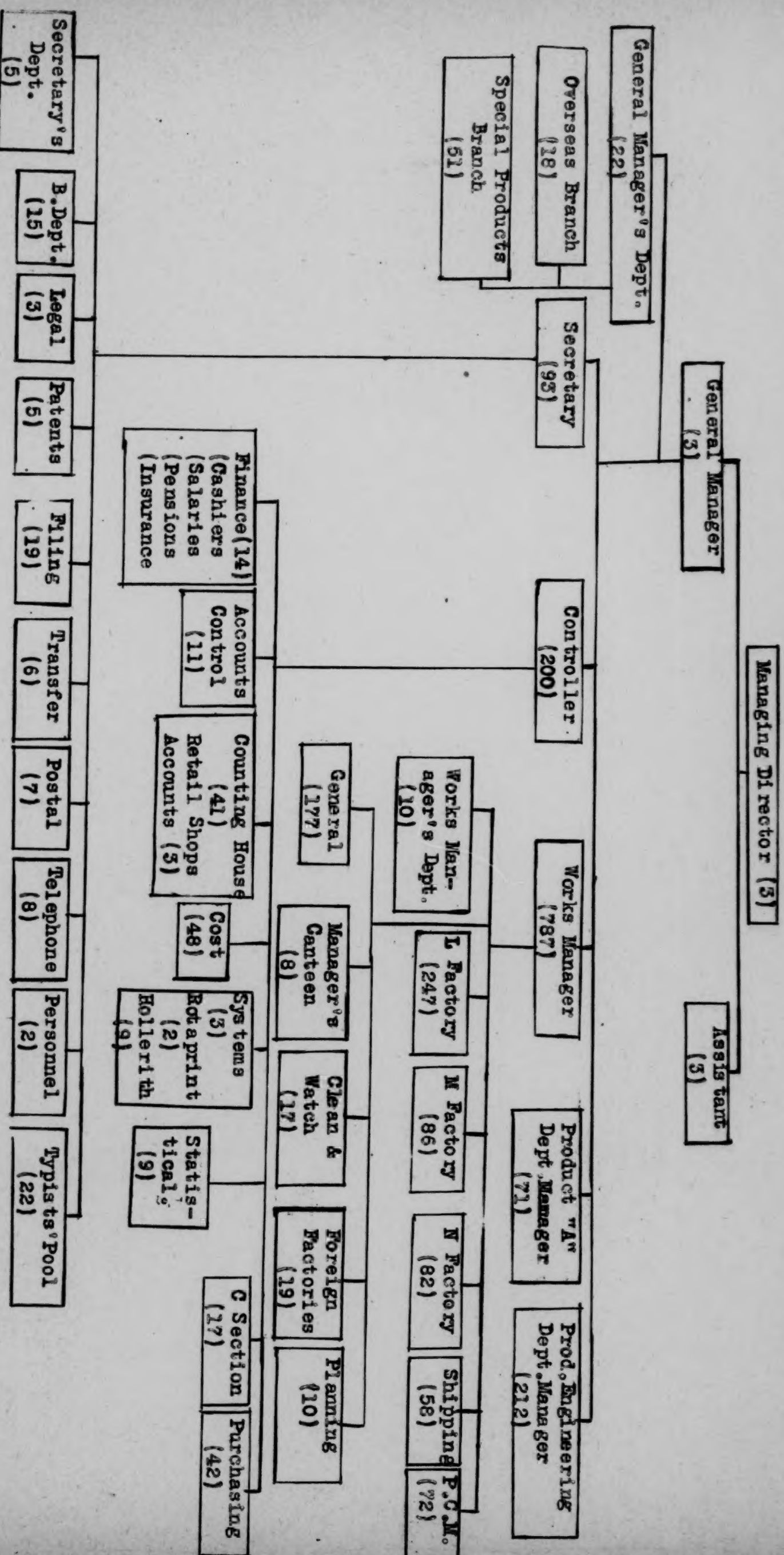


Name of Committee or Conference.	Personnel.	Meetings.	Functions.	Sub-Committees or Conferences.
4. B. Dept. Conf. Company Secretary (Chairman), Manager of Department, Asst. to Manager of Dept., Secretary, Asst. to Company Secretary.	Every Tuesday, 10 a.m. B. Dept.	Directed activities of departments and main policies.		
5. Patents Conf. Company Secretary (Chairman), Manager of Patents Dept., Company's Patent Agent, Manager, Product Engin. Dept., Secretary, Asst. to Company Secretary.	Every Monday, 2 p.m. Board Room.	Supervised the activities of Patent Dept. and coordinated it with the work done by the Company's Patent Agent. De- cided action to be taken with regard to patenting new inventions, royalties & licenses of patents held by the company, infringements of patents, etc. Minutes of the conference were recorded under the fol- lowing heads: Applications & Registrations, Inventions & Suggestions, Infringements & Oppositions, Patent Negotiations, Infringe- ments of certain Company patents, Miscel- laneous.		
6. Research Manager Product Engin. Dept., (Chairman), The other Members were Heads of the following divi- sions of the Product Engin. Dept.: Research, Administration, Product Design, Engineering & Progress, Chemical Engin., Asst. to Mana- ger of Department Secretary, Asst. to Manager of Department.	Alternate Tues- days 10 a.m. Office of Man- ager of Dept. (In practice not meet regularly, only when called by Manager of Dept. for special rea- sons). Minutes were even some times re- corded without a full meeting, ei- ther as a formal means of record- ing, and reporting on the progress of dept. or when a question had to be referred to the Executive or some other Committee.	Business included reports on the progress of the various sections of the depart- ment, and decisions as to new projects to be undertaken.		
7. Manfg. Conf. Works Manager (Chairman) Purchasing Controller, Manager in charge of Machine Production & Manager of Planning, Dept. Head of Property Design Divs. of P.S. Dept., Chief Engineer, Superintendent, Shipping Dept., J. Factory, M & N. Factoris, Z. Factory, Chief Cost Dept.	Monday, 10 a.m. Machine Factory Committee Room.	This conference was responsible for all chief questions concerning Production at the home and foreign factories.	There were 9 sub-committees in various departments of the home factories re- porting to the Manfg. Conf. at factory of Z. Company, Progress Div. Report Board, at Central Factory, with representa- tives of each of the other factory depts. & Employment Dept. for the discussion	

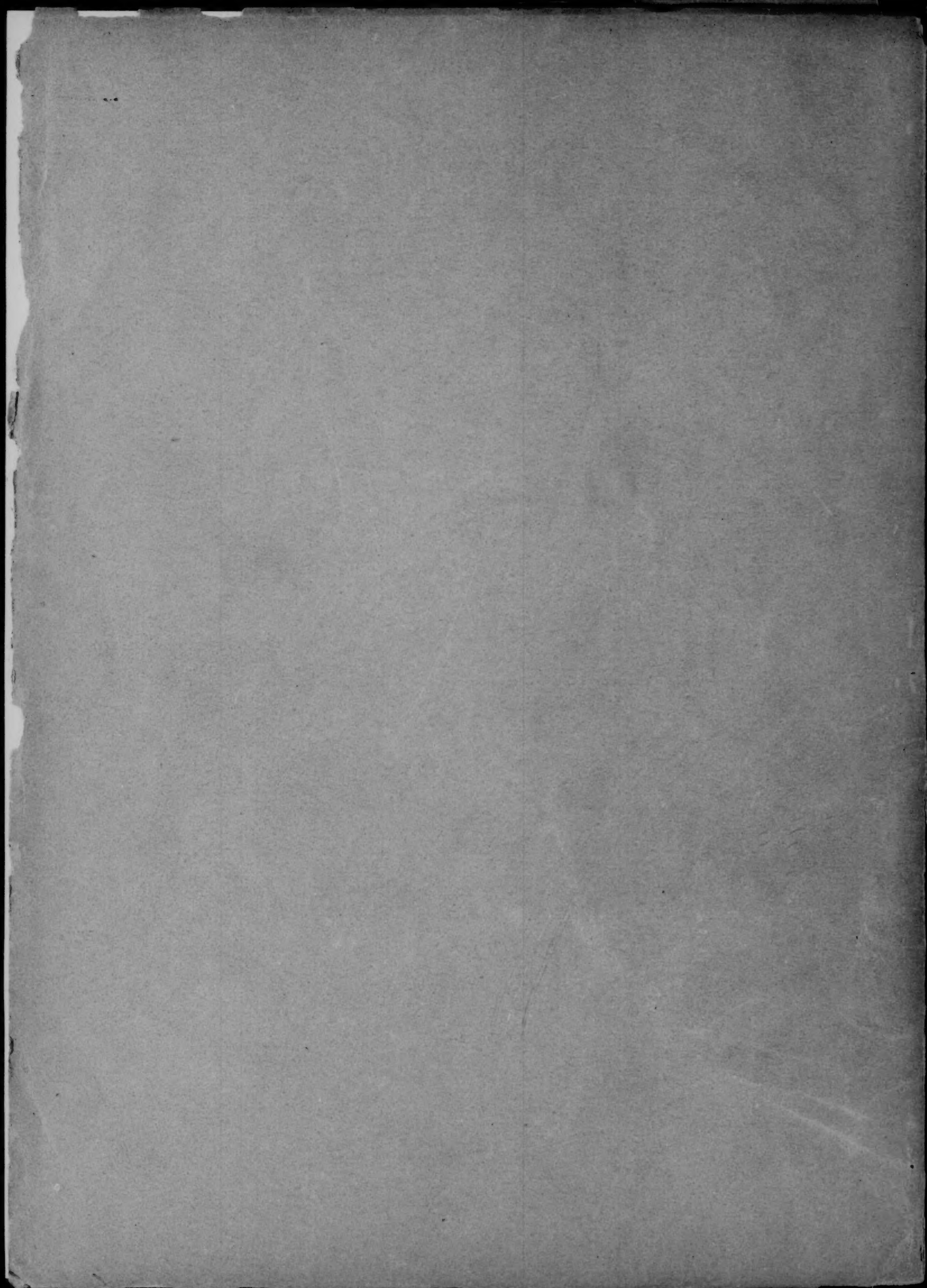
The Committees and Conferences of the X Company, Ltd.

Appendix IIIB.

Name of Com- mittee or Con- ference.	Personnel.	Meetings.	Functions.	Sub-Committees or Conferences.
1. Executive Committee.	Managing Director (Chairman) General Manager (Vice-Chairman) Controller, Works Manager, Manager Product "A" Dept., Assis- tant to Managing Director (Former) Head of Sales Administration Dept.	Every Thursday 10 a.m. Board Room.	Advisory to the General Manager in framing the general operating policies of the Company. Import- tant questions of policies brought up to it from all departments. Any project involving a capital expenditure of more than £250 had to be referred to it.	Sub-committees sometimes appointed for special pur- poses. All departmental committees and conferences report to the Executive Committee.
2. Finance Committee.	The Controller (Chairman), The Company Secretary, Accounts Dept., Credit Manager.	Every Wednesday, 10.30 a.m. Board Room.	The Committee was started chiefly with the object of relieving the Executive Committee of some of its work. Its chief function was to review from a financial as- pect any question involving cap- ital expenditure. It could sanc- tion projects involving expend- iture up to £250. or engagements or salary increases up to £16. Other projects were passed on to the Executive Committee with a recommendation for or against. The Committee also reviewed the general financial position of the Company and had a report on bank balances, investments brought be- fore it every week.	Cost Conference reported to the Finance Committee. It was made up of the Manager of the Credit Division of Accounts Dept., and the Chief and First Assistant in Cost Dept., Secretary, the Secretary to the Control- ler. Dealt exclusively with production costs & especially engaged in attempt to instal compar- ative costing methods throughout the combin- ation and to compare the efficiency of the various production departments.
3. Types Con- fer- ence.	Assistant to the Managing Dir- ector (Chairman), The Works Man- ager, Head of Sales Administra- tion Dept., Manager Machine Sales Dept., Manager Product Engineer- ing Dept., Manager Product "A" Dept., Head of Patent Dept., An Asst. Sales Admin. Dept., Secretary, Secretary to General Manager.	Officially once a week. Actually seldom met.	This Conference was no longer of great importance, its functions hav- ing been taken over by a smaller Managing Director's Conference. It used to decide on the programme of new machines to be manufactur- ed and put on the market.	"Types Progress Conf." was formed to relieve the con- gestion of business in the Types Conf. & to discuss the future developments of the company in machine man- ufacture, not the immediate production programme. Its personnel was: Works Manager, Manager Product, Engin. Dept., Asst. in the Product. Dept.



Name of Committee or Conference.	Personnel.	Meetings.	Functions.	Sub-Committees or Conferences.
8. Joint Sales & Mfg. Comm.	Chairmen - Alternately, Works Manager & Head of Sales Admin. Dept. (former head) Manufacturing Representatives: - Manager, Machine Prod., Superintendent, Z Factory and L Factory, Supplies Manager, Z Factory Secretary, Sec. to Mach. Prod. Manager, Sales Representatives: Asst. to Manager of Z Co., Head of Prod. "A" Dept., Manager, Overseas Branch, Asst., in Gen. Manager's Dept.	Early each month. Board Room.	Discussed questions referred by the Manfg. or Sales Conferences which needed opinion of other dept. for decision. They were specially concerned with questions referring to policies of foreign Branches which also operated factories also with discussion of production programmes.	of all questions concerning employees. To this Conf. reported a Labour Conf. at the Z Factory; a conf. at each of the 3 main factory dep'ts. & of the P.O. & M. dep'ts. & a shipping conf. there were also Mfg. Confs. at 6 of the foreign Branches which operated factories.
9. Sales Conf.	Chairman - Executive formerly Head of Sales Admin. Dept. & Asst. in Dept. Manager of "A" Machine Sales, Manager Prod. "A" Dept., Manager Overseas Branch, Chief of Advertising Section, Manager English Branch, Asst. to Manager Prod. "A" Dept., Secretary, Secretary to Manager Prod. "A" Dept.	Every Tuesday, 11 a.m.	The conference dealt with general questions concerning Sales & Advertising for the X Co., and for the English and foreign Branches.	Reporting to Sales Conferences there were Management Conferences at the Z Co., the English Branch and 6 foreign Branches.
10. Joint Sales & Prod. A. Comm.	Chairman - Manager Prod. "A" Dept., otherwise personnel the same as for the Sales Conference.	No fixed times.	The Committee was formed recently to consider questions referred by the sales or Prod. A. Dep'ts. It dealt specially with questions concerning the Sales of Prod. A. by the Branches.	
11. Prod. A. Conf.	Chairman - Manager Prod. "A" Dept., Secretary to Manager Prod. "A" Dept., Manager English Branch, Executive formerly in charge of Sales Admin. Dept. 2 Assts. in Section of Prod. "A" Dept.	Every Tuesday, 9.30. Board Room.	Dealt with questions concerning the sales of Prod. "A" both at home and abroad.	11 conferences on various questions connected with manufacture or sale of Prod. A. at the Home Office, English Branch and 5 foreign Branches.



**END OF
TITLE**